



Public Utilities Board, Alberta



Energy Resources  
Conservation Board

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**Gas Supply  
and  
Transportation Service  
Inquiry**

**PUB/ERCB REPORT NO. E87128/87-C**

**DATED**

**DECEMBER 29, 1987**

**TO**

**THE LIEUTENANT GOVERNOR IN COUNCIL**

88-01868/

**GAS SUPPLY AND  
TRANSPORTATION SERVICE INQUIRY**

DECEMBER 1987

Published by:

Public Utilities Board, Alberta  
11th Floor  
10055 - 106 Street  
Edmonton, Alberta  
T5J 2Y2  
Telephone (403) 427-4901

Energy Resources Conservation Board  
640 Fifth Avenue SW  
Calgary, Alberta  
T2P 3G4  
Telephone (403) 297-8311

**BEFORE THE PUBLIC UTILITIES BOARD OF ALBERTA**

**AND**

**THE ENERGY RESOURCES CONSERVATION BOARD**

**REPORT NO. E87128/87-C**

**DATED**

**DECEMBER 29, 1987**

**RE: GAS SUPPLY AND TRANSPORTATION SERVICE INQUIRY**

*IN THE MATTER OF* Order in Council 484/87 dated July 22, 1987 requesting an inquiry into certain matters relating to the long-term security of natural gas supply and the availability and terms of transportation service therefor to consumers of natural gas in Alberta;

*AND IN THE MATTER OF* an Inquiry of the Public Utilities Board and the Energy Resources Conservation Board into the aforesaid matters.



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### **ABBREVIATIONS AND ACRONYMS USED WITHIN THIS REPORT**

|                                   |                                                                           |
|-----------------------------------|---------------------------------------------------------------------------|
| AEC                               | AEC Oil & Gas Company Limited (Alberta Energy Company)                    |
| AGEC                              | Alberta Gas Ethylene Company Ltd.                                         |
| Alberta Dehy                      | Alberta Dehy Association                                                  |
| Boards, the                       | Public Utilities Board of Alberta and Energy Resources Conservation Board |
| Brenda Marketing                  | Brenda Marketing Inc.                                                     |
| Canada Packers                    | Canada Packers Inc.                                                       |
| Canbra                            | Canbra Foods Limited                                                      |
| Canfor                            | Canadian Forest Products Limited                                          |
| CBR                               | CBR Cement Canada Limited                                                 |
| Co-ops, the                       | The Federation of Alberta Gas Cooperatives Ltd.                           |
| CWNG                              | Canadian Western Natural Gas Company Limited                              |
| Edmonton                          | City of Edmonton                                                          |
| Energy Resources Conservation Act | Energy Resources Conservation Act, R.S.A. 1980, c. E-11                   |
| Enron                             | Enron Canada Ltd.                                                         |
| ERCB                              | Energy Resources Conservation Board                                       |
| GJ                                | Gigajoules                                                                |
| Gas Resources Preservation Act    | Gas Resources Preservation Act, R.S.A. 1984, c. G-3.1                     |
| Gas Utilities Act                 | Gas Utilities Act, R.S.A. 1980, c. G-4                                    |
| GUB                               | Gas Utilities Board                                                       |

|                       |                                                                                                                                                  |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Hospital Group, the   | Calgary District Hospital Group                                                                                                                  |
| kPa                   | Kilopascals                                                                                                                                      |
| Industrial Consumers  | Cominco Ltd., Celanese Canada Inc., Dow Chemical Canada Inc., Sherritt Gordon Mines Limited, and Western Canada Steel Ltd.                       |
| IPAC                  | Independent Petroleum Association of Canada                                                                                                      |
| LDCs                  | Local Distribution Companies                                                                                                                     |
| Lethbridge Brewery    | Lethbridge Brewery Limited                                                                                                                       |
| Maple Leaf            | Maple Leaf Mills Limited                                                                                                                         |
| Municipal Intervenors | Cities of Red Deer, Lloydminster, Fort McMurray, and Grande Prairie and the Towns of Vermilion and Vegreville                                    |
| Municipalities        | City of Calgary, City of Edmonton, City of Lethbridge, and the Municipal Intervenors                                                             |
| Northridge            | Northridge Petroleum Marketing, Inc.                                                                                                             |
| NUL                   | Northwestern Utilities Limited                                                                                                                   |
| Palliser              | Palliser Distillers Ltd.                                                                                                                         |
| PJ                    | Petajoules                                                                                                                                       |
| Producers Group, the  | Amoco Canada Petroleum Company Limited, Esso Resources Canada Limited, Shell Canada Limited, B.P. Canada Inc., and Gulf Canada Resources Limited |
| PUB                   | Public Utilities Board, Alberta                                                                                                                  |
| Rural Gas Act         | Rural Gas Act, R.S.A. 1980, c. R-19                                                                                                              |
| University, the       | University of Alberta                                                                                                                            |
| Utilities, the        | CWNG and NUL                                                                                                                                     |
| WGML                  | Western Gas Marketing Ltd.                                                                                                                       |

## **DEFINITION OF TERMS**

|                        |                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Backstopping           | Arrangements made by an end-user such that if its primary supply fails, an alternative supply is available to be delivered at a Utility's normal point of receipt.                                                                                                                                                                                                                                                               |
| Broker and/or Marketer | One who acts as an intermediary between the producer and the end-user.                                                                                                                                                                                                                                                                                                                                                           |
| Commercial Consumers   | Consumers using natural gas in carrying out a business where the primary use of the natural gas is for space heating, cooking, water heating or other non-process or non-manufacturing use, including those in the wholesale or retail trade, any multiple unit dwelling other than a boarding or rooming house, and any institutional enterprise, whether privately or publicly funded, which provides a service to the public. |
| Delivery Point         | The point on the LDC's system, as specifically described in a transportation contract, to which the LDC delivers gas transported under that contract.                                                                                                                                                                                                                                                                            |
| Direct Purchase        | An arrangement whereby an end-user of natural gas purchases gas directly from a producer or broker. The gas is transported by a transmission company and, if applicable, can be handled in one of two ways:                                                                                                                                                                                                                      |
| i) Buy-Sell            | An LDC, Broker or agent for an end-user, purchases and arranges the transportation of the end-users gas supply requirements.                                                                                                                                                                                                                                                                                                     |
| ii) Contract Carriage  | Transportation service provided under contract to transport gas not owned by the pipeline company or a distributor.                                                                                                                                                                                                                                                                                                              |
| Distribution System    | The distribution mains, service lines, and their associated control components, through which gas is conveyed, at pressure generally lower than 700 Kilopascal (kPa), from transmission lines or from local sources of supply to a customer's point of delivery.                                                                                                                                                                 |

|                                               |                                                                                                                                                                                                                                                   |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Franchise Area                                | An area served by a distributor under the terms and conditions of an agreement where the distributor has the right to provide service to all or certain classes of customers.                                                                     |
| Industrial Consumers                          | Consumers whose predominant requirement for natural gas is for process or manufacturing use, or consumers whose primary requirement is for space and water heating, but where the operation is one of manufacturing or processing.                |
| Local Distribution Company                    | A utility which distributes and/or sells gas in a designated area, usually under the terms and conditions of a franchise agreement with a Municipality.                                                                                           |
| Receipt Point                                 | The point on an LDC's transmission system, as specifically described in a transportation contract, where the gas to be transported first enters the LDC system.                                                                                   |
| Residential Consumers                         | Consumers whose primary use of natural gas is for space heating, cooking and water heating in a private dwelling with associated buildings or in a boarding or rooming house.                                                                     |
| Take-Or-Pay                                   | A provision in gas supply contracts whereby a purchaser agrees to pay for a specified volume during a period of time whether or not the specified volume is taken.                                                                                |
| Transmission Line                             | A pipeline that conveys gas at pressures generally higher than 700 kPa from a gathering line, treatment plant, storage facility, or field collection point in a gas field to a distribution system storage facility, or other transmission lines. |
| Transportation Service<br>(Contract Carriage) | A gas carriage service provided under contract for the transport of gas not owned by the transporting company.                                                                                                                                    |

## EXECUTIVE SUMMARY

The gas producing and marketing industries in Canada have been moving toward a greater market orientation since the October 31, 1985 Agreement among the Governments of Canada, Alberta, British Columbia and Saskatchewan on Natural Gas Markets and Prices.

Both the Public Utilities Board (PUB) and the Energy Resources Conservation Board (ERCB) have held related inquiries over the past year and on July 22, 1987, the Lieutenant Governor-in-Council of Alberta issued Order in Council 484/87 requesting the PUB and ERCB (the Boards) to inquire into several matters related to the increased market orientation.

The matters which the Boards were requested to inquire into and report on were as follows:

- "(i) the basis for determining the classes of consumers of natural gas who should be protected by contracts for the supply of natural gas that ensure long-term security of supply;*
- (ii) the terms and conditions of contracts that would ensure long-term security of supply for those consumers;*
- (iii) the availability of transportation service for natural gas to consumers who wish to contract directly with producers and others for the supply of natural gas;*
- (iv) any changes that may be required to the terms of access to transmission and distribution facilities, to make them consistent with the government's policy concerning long-term security of supply; and*
- (v) any other matters considered by the PUB and ERCB to be relevant to any of the matters referred to in subclauses (i) to (iv)."*

In response to Order in Council 484/87, a joint inquiry was conducted by representatives of the PUB and ERCB. Input from interested parties was by written submission and in the form of a public hearing held from September 14 through 18, 1987.

The Boards have concluded that the major element of the public interest under consideration is security of supply for appropriate consumers. The recommendations should be consistent with security of supply, achievement of fair prices, access to markets, and general economic efficiencies. They should also be consistent with the increased market-orientation of natural gas supply and distribution, easy to understand and practical to apply.

In arriving at the recommendations contained in this Report, the Boards have proceeded on the understanding that the Provincial Government intends to im-

plement a policy whereby the security of natural gas supply for those classes of consumers in the core market will be provided by mandated contracts. Until such time as that policy is implemented and appropriate legislation is enacted, the Boards will continue to exercise their jurisdiction under the existing legislation.

A summary of the recommendations of the Boards is set out below and the detailed recommendations are collected in Section 8.

### Summary of Recommendations

The Boards suggest that the classes of consumers who should be protected by contracts ensuring a long-term supply of natural gas (referred to for convenience here as the "core market") should consist of those consumers whose dependence on natural gas is so fundamental that assurance of supplies is always a priority. The core market should include residential and commercial consumers. These consumers may be protected either through reliance on gas utility companies (who would be required to establish an appropriate portfolio of long-term supplies), or through direct sales arranged with producers or brokers, provided these direct sales involve long-term commitments on both sides. The Boards recognize that an argument can be made to include certain small industrial consumers in the protected category but decided that problems associated with the mandate of the PUB make it difficult to include such consumers in a formal definition.

The long-term commitments should be for a period of approximately 10 to 15 years, should include peak-day requirements in the current year, and should contain protective back-up sufficient to convince the Boards that the level of security of supply is adequate. The required long-term arrangements would have to be maintained over time and are intended not only to ensure that consumers are adequately protected but also that the costs of that protection are equitably allocated.

Transportation service should generally be provided to customers, including those in the core market, provided that core customers meet the above conditions requiring assurance of secure long-term supplies, and that core customers choosing to leave the gas distribution utilities, and to arrange their own supplies, absorb all costs associated with that decision. Such costs might include take-or-pay liabilities or load-balancing costs caused by customers departing the system. These customers may return to the distribution system, but they again would have to absorb any costs caused by that decision.

Non-core customers would be allowed to arrange supply and transportation contracts for whatever term they felt appropriate, at rates designed to cover all associated costs.

The difference between core and non-core customers would be essentially as follows:

- (a) Core customers would have to acquire supplies for 10 to 15 years, either through distributors or by way of direct sales, whereas non-core customers could arrange any term they were able to negotiate.
- (b) Core customers would be the primary beneficiaries of the protection implicit in removal permits, and in hearings that consider the availability of gas to Alberta consumers before approving removals from the Province.

#### **Timing of Implementation of Recommended System**

The Boards recognize that the contents of this Report constitute recommendations to be ultimately considered by the Government of Alberta. The subject matter is important and controversial and will likely evoke much reaction. The time for consideration may therefore be lengthy.

Additionally, if the recommendations are accepted, changes will be required to legislation and regulations, and changes may be required to franchise agreements.

The system and procedures needed to administer the mandatory contracting for core consumers and transportation rates which recognize take-or-pay, load-balancing and other costs, may also be somewhat complex.

The PUB will be required to hold hearings to establish the appropriate rates, terms and conditions of transportation service.

Therefore, the Boards envisage that there may be a substantial time period before the recommendations in this Report can be implemented.

## GAS SUPPLY AND TRANSPORTATION SERVICE INQUIRY REPORT

### 1. Introduction

#### 1.1 Background

On March 28, 1985 the Governments of Canada, Alberta, British Columbia, and Saskatchewan agreed that a more flexible and market-oriented pricing regime was required for the domestic pricing of natural gas. The agreement is commonly referred to as the Western Accord (the Accord). A subsequent agreement among the same Governments on October 31, 1985 (the Agreement) asserted, among other things, that consumers may purchase natural gas from producers at negotiated prices, either directly or under buy-sell arrangements with distributors, provided distributor contract carriage arrangements are available in respect of such purchases. The period November 1, 1985 to October 31, 1986 was agreed to be a period of transition, during which prices would continue to be prescribed by Governments and after which the purchase and sale of natural gas would be freely negotiated. Immediate steps were to be taken by signatories of the agreement to enable gas consumers to enter into supply arrangements with gas producers at negotiated prices during the transition period. Several such direct sales were effected during the period.

Following the Accord and the Agreement of October 31, 1985, the Public Utilities Board (PUB) received submissions from various gas producers, industrial consumers, and others during general rate cases of major gas utilities. These submissions related to the availability and terms of distributor contract carriage of natural gas within Alberta.

In the fall of 1986, the PUB conducted a public inquiry to determine the terms and conditions to be used and the formula to be adopted for establishing transportation rates for the contract carriage of natural gas by the regulated gas distribution utilities.

In its Report E86110 issued on December 30, 1986, the PUB decided that only producers and large industrial customers (non-core customers) shall be eligible for transportation service and that the availability of the utilities' distribution systems for transportation service would be decided as the need may arise in an individual case. Moreover, core market customers were defined therein as, "residential, commercial and small industrial customers located within a franchised area ... producers and large industrial customers are considered to be non-core customers."

Concurrent with its Report, the PUB in its Order E86111 ordered, among other things, that Canadian Western Natural Gas Company Limited (CWNG), Northwestern Utilities Limited (NUL) and ICG Utilities (Alberta) Ltd. should continue to provide contract carriage of natural gas for long-term firm and restricted service to their then existing customers and should provide firm (short-term) transportation service for terms of one year, two years and three years on a regulated basis.

In June 1987, the PUB held a hearing to deal with gas transportation matters arising from the Report E86110 with the exception of certain applications from core market customers. The PUB issued its Decision C87014 dated August 25, 1987 which dealt with the rates and terms and conditions of service for the transportation of natural gas by CWNG and NUL. In that Decision, the PUB clarified that in order to qualify for transportation service, a "large" industrial customer's annual gas requirements at the point of delivery should be in excess of 300,000 Gigajoules (GJ).

A separate hearing to deal with the specific applications from certain "small" industrial customers and certain institutions seeking gas transportation service was scheduled to commence on August 10, 1987.

#### 1.2 ERCB Review of Surplus Test Determination

The October 31, 1985 Agreement stated that:

*"Alberta and British Columbia will initiate a review of their respective surplus tests to ensure that the tests will contribute to the achievement of the market-oriented pricing system contemplated in the Agreement."*

In response to a request of the Alberta Minister of Energy and Natural Resources, the Energy Resources Conservation Board (ERCB) commenced a public hearing on January 13, 1987 for the purpose of hearing representations respecting the procedures and formulae used in the administration of the Gas Resources Preservation Act. The Notice of Hearing called for submissions with respect to any aspect of the procedures and formulae then used by the ERCB.

The Alberta Minister of Energy had stated that the policy of the Government was to provide for the reasonable needs of end-users who cannot normally be expected to contract directly with producers for supply needs, but not for those end-

users, generally in the industrial category, who are capable of arranging security of supply through direct contractual practices.

The ERCB issued Report 87-A, Gas Supply Protection for Alberta, Policies and Procedures, in March 1987. In the Report a definition of core market was given for the express purpose of calculating the amount of gas surplus to Alberta's requirements as follows:

*"The core requirements would be taken as residential requirements, plus commercial requirements, plus small industrial requirements (individually less than 2 petajoules or about 2 billion cubic feet per year). The definition of core requirements would be somewhat arbitrary and no attempt would be made to determine which requirements are actually being contracted for directly with producers. This would be a recognition that the entire calculation is an approximate one and is intended to be used by the Board [ERCB] with judgment in determining whether or not new permits should be issued."*

### 1.3 Applications for Transportation Service

The PUB had received numerous applications over the period May to July 1987 from certain industrial consumers and certain institutions (the Applicants) seeking natural gas transportation service from CWNG and NUL, the two major local gas distribution utilities. These Applicants are listed on page 1 of Appendix 3 of this Report.

The intention of these Applicants was to arrange for the direct purchase of their natural gas supplies and to obtain transportation service on the transmission and distribution systems of CWNG and NUL.

As previously mentioned, the PUB had scheduled a hearing of these applications to commence on August 10, 1987. The purposes of the hearing as set out in the Notice of Hearing dated May 26, 1987, were to determine:

- (a) a definition of "Core Market" customer;
- (b) whether or not it is just and reasonable to order the provision of natural gas transportation service to such customers by CWNG and NUL;
- (c) if appropriate, rates for such service.

Submissions were requested from any (other) party desiring natural gas transportation service.

### 1.4 The Order in Council

On July 22, 1987, the Lieutenant Governor in Council of Alberta issued Order in Council 484/87 requesting that the Public Utilities Board and the Energy Resources Conservation Board

"(a) inquire into the following matters:

- (i) the basis for determining the classes of consumers of natural gas who should be protected by contracts for the supply of natural gas that ensure long-term security of supply;
- (ii) the terms and conditions of contracts that would ensure long-term security of supply for those consumers;
- (iii) the availability of transportation service for natural gas to consumers who wish to contract directly with producers and others for the supply of natural gas;
- (iv) any changes that may be required to the terms of access to transmission and distribution facilities, to make them consistent with the Government's policy concerning long-term security of supply; and
- (v) any other matters considered by the Public Utilities Board and Energy Resources Conservation Board to be relevant to any of the matters referred to in subclauses (i) to (iv); and

(b) report upon and make recommendations to the Lieutenant Governor in Council in relation to the matters referred to in clause (a)."

It should be noted that in the preamble to the request for the Inquiry by the Boards, it is stated that,

*"... the Government of Alberta has established a policy whereby contractual arrangements shall be the basis for providing security of supply to consumers of natural gas in Alberta; and*

*... the Government of Alberta has announced a policy that certain classes of consumers of natural gas should be protected by contracts which ensure long-term security of supply of natural gas;"*

The policy of the Government of Alberta on natural gas protection and pricing was outlined in a news release dated April 14, 1987. The policy contained, among other things, the following relevant components:

- (1) "the core market for Alberta natural gas, comprising residential and commercial gas users

who are not in a position to use alternative fuels, must be protected by long-term contracts which ensure adequate long-term protection."

- (2) "The public interest is best served by a gas protection procedure that:

- delivers gas supply protection with minimum distortion of market forces;
- allows industrial consumers to provide their own protection through the contractual process; and
- provides assurance that the future natural gas needs of Alberta residential and commercial users will be met."

A copy of the news release was filed under Tab 2 of Exhibit 18A by CWNG and NUL and is attached hereto as Appendix 1.

On August 5, 1987, Her Majesty The Queen in Right of Alberta (Her Majesty) filed an application for an adjournment of the August 10 proceedings in view of the Order in Council which had been issued and pending the recommendations of the Inquiry.

The PUB heard the application for adjournment at the commencement of the proceedings on August 10, 1987. In view of representations made on behalf of Her Majesty, the PUB adjourned the hearing of the Core Market Applications to September 14, 1987 and decided to deal with these Applications in conjunction with the Inquiry, and defer its ruling on the merit of the Applications until the Inquiry Report was issued and the Alberta Government had an opportunity to respond to the recommendations.

#### 1.5 Notice of the Inquiry

Notice of the Inquiry and the Applications for Transportation Service was served on all of the Participants listed in the "Core Market" Mailing List and in the ERCB Gas/Ethane Removal Mailing List dated August 13, 1987. In addition, the Notice was published once in all of the daily newspapers circulating in Alberta, except the Globe and Mail. Affidavits of publication and of service were marked as Exhibits 1 and 2 respectively, at the Hearing.

#### 1.6 Submissions

In response to the Notice of the Inquiry, Submissions were received from 10 Participants, in addition to the evidence of the "Core Market" Applicants. The Boards consider it appropriate to give consideration to such evidence in so far as it is relevant to the terms of reference of the Inquiry. The Witnesses who testified at the Inquiry are

listed in Appendix 2 to this Report.

#### 1.7 Hearing

The Inquiry commenced on September 14, 1987 at Govier Hall, Energy Resources Building in Calgary and concluded after 5 days of hearings on September 18, 1987. Most of the Participants submitted written arguments by September 29, 1987 and rebuttal by October 6, 1987.

Participants who appeared at the Inquiry included the Applicants, the Utilities, IPAC, Gas Producers and Consumers, Brokers and Marketers, Municipalities and Others as shown in Appendix 3 to this Report.

Three Members of the PUB consisting of T.D. Hetherington, Presiding Member, Ms. A.C. Barfett, and R.D.S. Ward, and two Members of the ERCB, G.J. DeSorcy, Chairman of the ERCB, and Dr. J.P. Prince, were assigned to conduct the Inquiry and to prepare a Report.

#### 1.8 Objectives

Each Board is mindful of existing legislation related to its separate area of jurisdiction and responsibility. For the PUB, the primary purpose in regulating utilities under its jurisdiction is to ensure that the customers of such utilities receive safe and adequate service at rates that are just and reasonable to both the customers of and investors in those utilities. Hence, within the context of utility general rate applications, the PUB considers the utilities' security of supply and the prudence of the utilities' gas supply contracts. The PUB also performs a number of other regulatory functions some of which fall within the ambit of the terms of reference of the Order in Council. These include the approval of franchise agreements, supply contracts and taxation agreements between municipal councils and gas utilities. In such approvals, the PUB considers among other things, whether the utility has sufficient supply to provide continuous service to the Municipality for the duration of the franchise agreement.

The ERCB is required through the Gas Resources Preservation Act, not to grant a permit for the removal of gas from Alberta without having regard for the availability of reserves for the applied-for removal, the trends in growth of reserves, and the present and future needs of Albertans.

With these underlying responsibilities in mind, and each organization having previously conducted hearings into matters requiring some form of definition of core market, the Boards approached the joint inquiry with the common ob-

jective of formulating among other things, a definition of core market which could be used to meet their respective needs in the future.

In this respect, the Boards consider that in responding to the mandate of the Order in Council, it is necessary to take into account the public interest as a whole. In Alberta, matters relating to the production, transmission and distribution of natural gas affect the interests of the producer, distributor and consumer. Accordingly, the objectives of the recommendations of the Boards as a result of this Inquiry include the following:

- (1) to ensure security of gas supply for certain classes of consumers and to establish the kind of security to be provided;
- (2) to ensure just and reasonable prices to consumers over the short and long term;
- (3) to maintain the financial integrity of the regulated gas distribution utilities;
- (4) to provide producers with an equitable opportunity to market their products;
- (5) to avoid interfering with the ability of Alberta industries to compete in domestic and international markets;
- (6) to minimize interference with buyer / seller negotiations.

In arriving at the recommendations contained in this Report, the Boards have proceeded on the understanding that the Provincial Government intends to implement a policy whereby the security of natural gas supply for those classes of consumers in the core market will be provided by mandated contracts. Until such time as that policy is implemented and appropriate legislation is enacted, the Boards will continue to exercise their jurisdiction under the existing legislation.

## 2. ISSUES

The Boards will address the five matters of the Inquiry as set out in the Appendix to Order in Council 484/87 and the issues arising therefrom in the following Sections of this Report:

### Section 3

Basis for Determining Classes of Consumers To Be Protected By Long-Term Contracts [O.C. (a)(i)]

### Section 4

Terms and Conditions of Contracts That Would Ensure Long-Term Security of Supply for Those Consumers [O.C. (a)(ii)]

### Section 5

The Availability of Transportation Service For Natural Gas to Consumers Who Wish to Contract Directly with Producers and Others For the Supply of Natural Gas [O.C. (a)(iii)]

### Section 6

Any Changes That May Be Required to the Terms of Access To Transmission and Distribution Facilities, To Make Them Consistent With The Government's Policy Concerning Long-Term Security of Supply [O.C. (a)(iv)]

### Section 7

Any Other Matters Considered By The PUB and The ERCB to be Relevant to Any of the Above Issues [O.C. (a)(v)]

## 3. BASIS FOR DETERMINING CLASSES OF CONSUMERS TO BE PROTECTED BY LONG-TERM CONTRACTS

### 3.1 Views of the Applicants

Most of the Applicants for transportation service recommended that there should be no categorization of consumers into different classes. Natural gas users should be given the opportunity to effectively acquire their gas supplies in a market-oriented pricing regime as envisaged by the Accord. These Applicants maintained that depriving them of this opportunity would be contrary to the spirit of the Accord and might have serious impacts on the economic viability of Alberta industries and their ability to compete.

The Applicants gave various reasons to be excluded from any core market definition and thus allowed to directly purchase their gas requirements. Such reasons can be summarized as follows:

- (1) they have an ability to manage and contract for their own gas supplies,
- (2) they consume large volumes of gas,
- (3) they have the capability to switch to alternative fuels,
- (4) they can tolerate gas supply interruption without detrimental impacts on themselves or the buyers of their goods, and
- (5) for the majority of Applicants, they use gas for other than space heating purposes.

Northridge Petroleum Marketing, Inc. (Northridge) (who applied on behalf of itself, IKO Industries Limited, Canadian National Railway and Alberta Sugar Company) submitted that any categorization of a wide and varied group of consumers raises the immediate issue of unequal and

possibly discriminatory treatment. A core market should not be defined for the purpose of identifying a group of consumers who are required to enter into mandated contractual terms to ensure security of supply. Any such definition of core market would be solely for price protection rather than supply protection. In Northridge's view, the current over-supply situation in Alberta and existing legislative and regulatory assurances of security of supply to all Albertans do not justify mandating the terms of contractual arrangements to secure gas supplies. Northridge argued that there will always be some group of gas sales customers who choose to stay as sales customers of the Local Distribution Companies (LDCs), and considered this group as the core market solely for identification purposes and not for the purpose of imposing any restrictions. However, if the Alberta Government chooses to mandate contractual requirements for certain groups of consumers, Northridge submitted that IPAC's core market criterion of space heating critical for human comfort and survival is "workable". Northridge argued that any definition of the core market should be as accurate as possible and relatively simple to apply, pointing out that the resulting definition will probably be somewhat arbitrary. There will always be some specific situations which will arise in the future which were not envisaged when the definition was established.

Consequently, Northridge proposed that any particular consumer who would ostensibly fit within the defined core market be given the opportunity to apply to the PUB or the Gas Utilities Board (GUB) to be classified as a non-core consumer.

The Calgary District Hospital Group (the Hospital Group) suggested that there is no need to distinguish between core and non-core consumers. The Hospital Group was clearly aware that the service it provides is essential, however, it submitted that its members have the ability to contract for their own gas supplies in a prudent manner and are capable of switching to an alternative fuel. For these reasons, the Hospital Group was of the opinion that its members should be excluded from any core market definition.

The University of Alberta (the University) stated that there will always be a de facto core market simply because there are consumers who, for economic or practical reasons, decide to remain as sales customers of the LDCs. For this reason the LDCs must be regulated. However, any definition of a core market that would impose mandated contractual arrangements and include the University is inappropriate. The University considered that its heating plant, for which it is ap-

plying for transportation service, is an industrial plant, as it produces steam for heating purposes which is then delivered through its distribution system to a number of facilities including the University Hospital. The University argued that the plant is a large volume gas user consuming 1.8 to 2.0 Petajoules (PJ) per year and is served off of a transmission line. The University also submitted that it has an alternative fuel capability whereby fuel oil can be used in the case of a gas supply interruption, making it possible to tolerate short-term interruptions while gas supplies are replaced.

The Alberta Dehy Association (Alberta Dehy) defined core market as residential and commercial consumers, and institutions providing essential services. The core market should exclude any consumer who uses a significant volume of natural gas for industrial purposes. Alberta Dehy suggested 10,000 GJ per year as the minimum volume below which the industrial consumer should be considered core for transportation purposes. While fully aware that this volume limitation is arbitrary, Alberta Dehy argued that it coincides with the minimum annual volumes set out in the Regulations to the Rural Gas Act. It argued further that its recommended volume limitation would put rural and urban gas users in similar competitive positions, as both would be able to contract directly for gas supplies.

Alberta Dehy submitted that its members should be considered non-core for the following reasons:

- (1) the majority of members are large volume gas users,
- (2) they consume gas on an even load,
- (3) they use gas for production of goods and not for space heating, and
- (4) they have the ability to tolerate an interruption of gas supplies without detrimental effects on themselves or the consumers of their products.

Palliser Distillers Ltd. (Palliser) did not see a need to define the core market, arguing that willing buyers and sellers will ultimately determine the core customers. It warned against any volume limitation in defining the core market, pointing out that a company's production could vary over time resulting in it being classified as a core consumer one year and a non-core consumer the next. It further argued that a threshold volume could deter conservation measures as a company attempts to avoid losing its preferred non-core status.

Alberta Distillers Limited submitted that the existence of competition and the possible economic impact on Alberta are adequate reasons for the Boards to allow the company to purchase gas directly.

CBR Cement Canada Limited (CBR) submitted that location on a distribution system and within a franchise area should not characterize a consumer as part of the core market. CBR recommended that the end-user group which is capable of arranging security of supply through contractual practices, is in a position to use alternative fuels and can tolerate interruptions in gas supply, should be excluded from the core market. The core market should include those consumers who require gas for space heating and other domestic purposes and who are unable to tolerate supply interruptions.

Canada Packers Inc. (Canada Packers) proposed that industrial users should be excluded from the core market however it is defined. Any volume limitations on industrial users should be eliminated. If however, such a limitation was found to be appropriate, Canada Packers advocated that the Boards allow pooling of volumes from several delivery points to meet the minimum annual requirement.

Canbra Foods Ltd. (Canbra) argued that consumers who do not reject the protection that the LDCs offer should be considered core. They recommended further that the right to contract for their own gas supply should only be offered to commercial and industrial users, since such consumers are familiar with risk management.

Maple Leaf Mills Limited (Maple Leaf), Lethbridge Brewery Limited (Lethbridge Brewery) and Canadian Forest Products Limited (Canfor) all generally expressed the view that there is no need to distinguish between core and non-core consumers and that all Participants should be allowed to function in a free market. There will always be a segment of the market that will choose to stay with the LDCs. This market will define itself over time, and as Canfor suggested, it will remain the responsibility of the regulatory boards to ensure that the customer is protected.

Canfor recommended that, if a definition of the core market is necessary, it should not include industrial and commercial consumers who are capable and willing to contract directly for their gas supplies and are capable of burning alternative fuels.

### 3.2 Views of the Utilities

CWNG and NUL (the Utilities) defined the core

market to include end-use customers whose long-term requirements are protected and who have pre-emptive supply rights, that is, residential, commercial and small industrials using less than 2 PJ annually. The Utilities believed that consumers enjoying such long-term protection should not be permitted to opt out for perceived short-term savings. The Utilities recommended that small industrial customers with annual consumption of less than 2 PJ may apply to the GUB for a determination of core versus non-core status. It was the Utilities' position that consumers found by the GUB to be non-core would no longer have the supply protection provided to the core market. The Utilities listed six characteristics of non-core consumers who in their view would not need government protection policy:

- (1) The consumer competes for market share within his industry.
- (2) The consumer's cost of gas is a significant contributor to the cost of his competitive product.
- (3) The consumer could independently suffer the consequences in the event of a failure of the consumer-arranged gas supply, without adversely impacting others.
- (4) The consumer's supply / demand can be operated and balanced as a transportation load independently of that of other customers.
- (5) The consumer is located outside of a gas franchise area or if within a franchise area, the municipal government is prepared to exempt the consumer from the terms of the franchise agreement without violating existing contracts.
- (6) The consumer obtains expert professional advice on gas supply matters from parties independent of those who might profit from the buying and selling of the gas.

The Utilities suggested that consumers who do not possess any of these characteristics are probably identified as core market gas users.

If there is any doubt about whether a consumer fits into the core or non-core category, the Utilities recommended that such a consumer should apply to the GUB for a status determination. The Utilities suggested that processing of such an application should be dealt with in an expedited manner, based on the filed material without a need for public hearings, except upon reasonable objection by interested parties.

The Federation of Alberta Gas Cooperatives Ltd. (the Co-ops) defined the core market as "all residential, commercial and small industrial consumers who depend on the distributor to provide

full service at the most economical cost with the assurance of long-term security and price stability". The Co-ops argued that all commercial customers should remain in the core market, as any exceptions could lead to a flood of Applicants seeking non-core status, thereby incurring regulatory and administrative costs that, from a public perspective, could potentially exceed the savings to be earned by directly contracting for gas supplies. Institutions that are providers of essential services should also remain in the core market. The Co-ops pointed out that political reality dictates that in case of a supply interruption, the Government will always try to secure the gas requirements of essential-service providers. Given that, the Co-ops submitted that institutions should pay for this assurance of supply. Industrial users with a minimum consumption of 50,000 GJ per year, who are competing for a market share, using gas to produce goods, capable of tolerating interruptions and managing their own load-balancing, were considered by the Co-ops to be non-core.

### 3.3 Views of the Producers

The Producers recognized that there are consumers for whom some form of regulatory protection is required beyond contracts because fuel switching, from natural gas to fuel oil for example, is not a viable alternative in Alberta.

The Independent Petroleum Association of Canada's (IPAC) definition limited the core market to consumers for whom natural gas is critical to life support, space heating and domestic purposes. It defined the core market as:

*"... those end users of natural gas for whom regulatory assurance of long-term future supply protection is considered appropriate. Specifically, the core market is defined as those individual end-use consumers of natural gas in the residential and commercial sectors of the market, including in particular, providers of essential services (government, social, and educational), consuming natural gas primarily for domestic and space heating purposes."*

AEC Oil and Gas Company's (AEC) position was similar to that of IPAC, except that AEC included in its definition a core-elect group consisting of non-core consumers permitted on a one-time basis to enter the core market within six months of the implementation of government policy. AEC suggested that acceptance of a core-elect group in the core market should depend on the distributor's ability to supply and the approval of the PUB and the ERCB.

The Producers Group defined the core market as

all space heating consumers, rather than only those space heating consumers whose requirements are critical to human comfort and survival.

Dome Petroleum Ltd. supported IPAC's definition of the core market.

### 3.4 Views of the Marketers and Brokers

Western Gas Marketing Ltd. (WGML) adopted the IPAC definition of the core market. However if the Boards were to adopt a definition that includes some industrial consumers, WGML suggested the use of the six characteristics of non-core gas users as put forward by the Utilities to test whether an industrial customer falls in or out of the core market. If a minimum volume is to be applied to determine whether an industrial user is to be protected, WGML suggested that no pooling of delivery point volumes should be permitted. WGML further suggested that the LDC be required to maintain segregated supply pools for core and non-core requirements.

Enron Canada Ltd. (Enron) defined the core consumers simply as those who cannot or choose not to buy their gas directly. Enron argued that defining the characteristics of core consumers would result in arbitrary and discriminatory distinctions.

### 3.5 Views of the Other Participants

Alberta Gas Ethylene Company Ltd. (AGEC) recommended that a definition of the core market be used only to establish the intended beneficiaries of the mandated surplus. Regardless of how the core market is defined, AGEC suggested that customers who wish to contract for their own supply should be allowed to do so.

The Industrial Consumers adopted IPAC's definition of the core market, with an amendment to allow for the determination of the status of large and sophisticated providers of essential services on an individual basis.

### 3.6 Findings and Recommendations of the Boards

The Boards considered the body of evidence presented to the Inquiry on the matter of defining those classes of consumers who should be protected by long-term contracts. (For ease of reference, this group is referred to as the "core market".) A number of Participants questioned whether it is possible to adequately define the core market, and argued that the Boards should not attempt such a definition. Other Participants recommended very precise definitions of those consumers who should constitute the core market.

With respect to the classes of consumers who should be protected by contracts, the Boards considered all of the criteria raised by the Participants in recommending whether a gas consumer should be included or excluded from the core market. Such criteria included the nature of gas use, size of load, capability to burn alternative fuel, the degree of sophistication in contracting for gas supplies and location in a franchise area or on a distribution system.

The Boards gave primary consideration to the nature of the use of gas in recommending a definition of the core market. It is their view that the classes of consumers who should be protected by contracts that ensure long-term supply are those consumers who depend on natural gas in such a fundamental manner that their requirements are always a priority. Security of supply to these classes of consumers is so vital to their well-being that, in a situation of major supply disruption, it is reasonable to expect that they would be afforded government protection to ensure their requirements are satisfied. Such consumers include those who use natural gas primarily for space heating and the maintenance of human comfort and survival, and whose well-being is very dependent on natural gas.

The consumers who have the characteristics discussed in the above paragraph represent the segment of the market that requires protection; the core market. The Boards consider that these protected consumers should contract for their security of supply. The Boards recognize that the market-based environment will establish the appropriate allocation of costs which might be associated with that protection. A legislated requirement that they place the necessary gas under contract would accomplish this.

The Boards appreciate the difficulty in precisely defining the core market in a manner that is satisfactory to all. Any such definition must be consistent with the general description set out in the earlier paragraph but also must be reasonably precise, easy to understand and practical to apply.

In order to arrive at such a definition the Boards considered it necessary to set out basic definitions for broad classes of consumers typically referred to and used for reporting data and other purposes. As used in this Report, the various classes of consumers are specifically defined as follows:

*Residential:*

Consumers whose primary use of natural gas is for space heating, cooking and water heating in a private dwelling with associated buildings or in a boarding or rooming house.

*Commercial:*

Consumers using natural gas in carrying out a business where the primary use of the natural gas is for space heating, cooking, water heating or other non-process or non-manufacturing use, including those in the wholesale or retail trade, any multiple unit dwelling other than a boarding or rooming house, and any institutional enterprise, whether privately or publicly funded, which provides a service to the public.

*Industrial:*

Consumers whose predominant requirement for natural gas is for process or manufacturing use, or consumers whose primary requirement is for space and water heating, but where the operation is one of processing or manufacturing.

Having regard for those basic definitions, the Boards believe the earlier-described rationale for requiring long-term supply security for certain consumers would dictate that those in the residential and commercial sectors of the market, along with certain small volume industrial users, constitute the core market. Included in the commercial sector are all providers of essential services, whether publicly or privately funded, including government, social, educational and medical institutions. The Boards recognize that all of these classes of consumers are now typically served by the LDCs.

Although the rationale suggests that certain small industrial users would require long-term protection because they are totally dependent on natural gas, there would be serious problems in including such consumers in the core market. Since all industrials clearly do not require long-term protection, it would necessitate using a cut-off in terms of volumes consumed. Those using less than the specified volume would be included in the core market, those using more would not be, even though the type of use might be otherwise identical.

Not only would this approach involve an arbitrary cut-off level, but it would also require some degree of discrimination in the application of rates within the industrial category. The PUB, in particular, believes this would be contrary to the intent of the legislation under which it operates.

In addition to the above problems, it should be noted that most of the Participants in the Inquiry suggested all industrials be in the non-core category. The Boards are mindful that small industrial consumers, of less than 40,000 GJ/year for example, use a very small portion of the total gas consumed in the Province. The Boards also would

expect that many of these small industrial consumers who are currently served by the LDCs would likely remain as sales customers of the LDCs rather than contract for their own natural gas supply, even if they are part of the non-core market.

For all of the above stated reasons, and even though certain small industrial consumers fit the rationale for requiring long-term supply protection, the Boards recommend that they be left out of the definition. The Boards consider that industrial consumers who elect to remain as sales customers of the LDCs should be treated as if they were part of the core and afforded the same security of supply protection that will be provided to core consumers.

In summary, the Boards conclude that residential and commercial consumers, including those providing essential services, are the classes of consumers who should be protected by contracts that ensure security of supply.

#### **4. TERMS AND CONDITIONS OF CONTRACTS THAT WOULD EN- SURE LONG-TERM SECURITY OF SUPPLY**

##### **4.1 Views of the Applicants**

Northridge recommended that the duration of supply contracts should reflect the time it takes to drill for new reserves and bring them on stream. Northridge recommended that a maximum term of three years would be sufficient to provide adequate supply protection, pointing out that there is no need to contract for an extended period, as all Albertans are equally protected by the conditions on removal permits and by Section 9 of the Gas Resources Preservation Act. There was in Northridge's view, little need for additional legislative or regulatory intervention in the marketplace. Northridge expressed the view that if mandated terms of contracts are required for long-term sources of supply, such requirements should only be imposed on core market suppliers. A mandated supply requirement of 10 years, in Northridge's view, would be more than adequate to provide security of supply to core consumers.

Northridge further recommended that core market suppliers should submit details of their gas supply to the PUB and the ERCB to determine whether they are eligible to serve core customers.

The Hospital Group recommended that a contract of five years duration would be adequate to secure their gas supplies. However, its members conceded that they would be prepared to meet the Government's mandated term if allowed to con-

tract for their own gas supply.

Canfor pointed out that it would be difficult to maintain contracts for a 15-year supply, as it would depend on the types of reserves and their potential deliverability. Palliser and Canbra both recommended that the Government only guarantee security of supply to the core market. They assumed that non-core consumers could adequately contract for their own security of supply.

The University recommended that security of supply should be maintained through mandated long-term contracts, only if such contracts could be competitively priced. It argued that long-term contracts would only make sense in a supply shortage. The University further argued that the LDCs are not the only entities that are capable of providing security of supply and stated that it would seek appropriate contractual arrangements based on a careful analysis of the producer's ability to deliver and to provide a back-stop supply.

##### **4.2 Views of the Utilities**

The Utilities recommended that, in assessing the adequacy of long-term security of supply, the appropriate regulatory Board should consider not only the contractual form but also the diversification of the portfolio of supply, the types of supply and supply locations and the ability to meet peak demand. The Utilities concluded that the appropriate terms and conditions for supply contracts should include a minimum term of 15-years duration, the exclusive dedication of reserves, frequent testing of the seller's reserves and a specific mechanism for determining future prices. The Utilities further recommended that, if long-term contracts are mandated to guarantee security of supply, the exclusivity of the existing franchises should be maintained.

##### **4.3 Views of the Producers**

AEC recommended that security of supply to the core market could best be achieved by requiring core market suppliers to contract for long-term supply. A periodic regulatory review of the suppliers' purchasing practices and supply availability was also recommended by AEC.

IPAC recommended that the LDCs, with a broad portfolio of supply, should be given the exclusive responsibility to serve the core market. IPAC contended that security of supply could not be adequately provided to core consumers through direct sales contracts. IPAC further advocated the requirement that sufficient reserves be dedicated

to ensure the level of regulatory protection required. IPAC suggested that the level of protection might be 15 years.

The Producers Group argued that adequate security of supply to the core market could be provided through contracts. It submitted that gas supply contracts to the core market should be of 15-years duration, with specific reserves and deliverability clauses being assigned to the particular markets to be served. The Producers Group further recommended that contracts be subject to annual price redetermination and to binding arbitration if the parties fail to agree on a price.

#### 4.4 Views of the Marketers And Brokers

WGML recommended that long-term supply contracts should be secured by a purchasing entity having an exclusive franchise to supply gas to core consumers. However, that entity need not necessarily be the existing LDC. WGML further recommended that the core market supplier should be subject to regulatory review and that the appropriate duration for the suppliers' contracts is 15 years.

On the basis of the time required to explore for new reserves and bring them on stream, Enron argued that 7-year gas supply contracts are sufficient to ensure security of supply to core consumers.

#### 4.5 Findings and Recommendations of the Boards

The Boards believe that in order to provide long-term security to the core market, gas supply contracts will have to dedicate to this segment of the market established gas reserves with a proven ability to deliver gas over a reasonable future time period. Having regard for the substantial potential for additional reserves to be found in Alberta, typical production patterns for Alberta gas pools, the financing requirements for production facilities and the earlier findings of the ERCB that an approximate 15-year protection period is appropriate, the Boards conclude that contracts should ensure security for a period of 10 to 15 years.

In addition, the Boards consider that there is no reason to deny producers, brokers and other agents the opportunity to serve the core market if such service can be provided without undermining the recommended mandated contractual protection of the core market consumer, and subject to conclusions regarding the availability of transportation service as set out in Section 5.

In order to ensure the security of supply to core consumers and those industrial consumers who elect to remain as sales customers of the LDCs, the Boards are therefore recommending changes to the legislation that would require that gas be maintained under contract for a time period judged satisfactory by the PUB. The mandatory period for security of supply would typically be 10 to 15 years, however, in special circumstances, a somewhat lesser period might be proposed to and accepted by the PUB. These circumstances might include relatively remote gas systems where contracting for 10- to 15-years supply would be totally impractical if not impossible, and/or where security of supply can be ensured in some other manner. (In the remainder of this Report, the period of protection will, for convenience, generally be referred to as "10- to 15-years". It should be taken, however, to include the above mentioned proviso.)

The adequacy of the reserves under contract would be reviewed by the PUB about every 3 years.

The Boards recommend that LDCs serving core-market consumers and others who elect to remain as sales customers should be required to have under contract sufficient deliverability to meet current peak load requirements as well as proven reserves for some 10- to 15-years requirements. However, the Boards recognize that some of the small LDCs, including certain municipally-owned utilities, may require a period of time before they could satisfy the reserve contracting requirements. Accordingly, some discretion should be afforded the PUB with respect to the timing of initial compliance with the requirement.

The Boards believe that where core consumers choose to contract with other than the LDCs, the PUB should also be satisfied that in addition to having sufficient deliverability to meet current peak requirements and enough proven reserves for some 10 to 15 years, they have adequate back-up for their supplies. Also, where the contracts are with parties that supply gas to other core consumers, it would have to be demonstrated that there is sufficient gas available in addition to the gas committed to the others.

The Boards consider that supply is required on an on-going basis and therefore, they recommend that the period of protection be a "rolling period", of some 10 to 15 years. Hence, if core consumers contract for their own gas supply, they must be prepared to maintain the 10- to 15-year requirement level by periodically contracting for additional reserves.

Situations could occur where core consumers, for example, contract for 12 years, add no further reserves over 4 or more years, and wish to simply finish the life of the contract before rejoining the LDC. This would mean that for 8 or so years, they would have less than the normal required amount of gas under contract. To prevent this, transportation service would have to be provided to core consumers only if their purchase contracts with producers or others specify that they will be automatically cancelled if at any future review, the consumer fails to satisfy the PUB that it has sufficient gas under contract. Therefore, their purchase contracts would have to contain provisions allowing their termination by the PUB and a requirement that such consumers return to the LDCs.

The PUB would be expected to consult with the ERCB regarding the volumes and potential productivity of reserves placed under contract. It is important to note that not all of the reserves contracted would have to be connected or capable of delivery at the time of contracting, but they must have demonstrated potential to be deliverable when needed in future.

**5. THE AVAILABILITY OF  
TRANSPORTATION SERVICE  
FOR NATURAL GAS TO CON-  
SUMERS WHO WISH TO CON-  
TRACT DIRECTLY WITH  
PRODUCERS AND OTHERS FOR  
THE SUPPLY OF NATURAL GAS**

**5.1 Views of the Applicants**

The majority of Applicants for gas transportation recommended universal access to transportation service. Northridge argued that no legislative restrictions on transportation service are required, as the marketplace will ultimately determine who can acquire such a service. The Hospital Group argued that open transportation on the distribution and transmission systems of the LDCs should be a matter of right. Canfor recommended that, at the very least, the minimum eligibility volume should be no greater than 75,000 GJ per annum. They further recommended that if a substantially high minimum eligibility volume were established, consumers should be able to pool volumes from numerous delivery points to meet the requirement. Both the University and Canada Packers argued that the core consumer should not be tied to the LDC, as there was no evidence that a core consumer could not obtain a secure supply from another source.

**5.2 Views of the Producers**

IPAC submitted that anyone outside the core market should be permitted to make direct purchases and be provided transportation service, but that core market consumers should be denied transportation service in order to preserve the sanctity of existing contracts between the distributors and producers. AEC also recommended that the LDCs should have the exclusive right to serve the core market. In contrast, the Producers Group argued in favour of open and non-discriminatory access to transportation service.

**5.3 Views of the Marketers and  
Brokers**

WGML recommended that transportation service should only be made available to non-core consumers. It further recommended that non-core consumers be allowed a one time election to join the core market, otherwise they would be required to contract for their own security of supply. WGML also argued that, if a minimum eligibility volume is established, consumers should not be allowed to pool volumes from numerous delivery points to meet the requirement. Enron, on the other hand, argued that transportation service should be available to all, with no minimum volume restriction.

**5.4 Views of the Municipalities**

The City of Edmonton (Edmonton) disputed the basic right to transportation service. In Edmonton's submission, the approval of transportation services within municipal franchise areas would mean the entry of a third party into the franchise contract agreement between the Municipality and the utility that serves it. Edmonton's argument noted that franchise payments are based on the sale of natural gas and not the transportation of natural gas. The remainder of Edmonton's concerns were essentially economic in nature and centered on the possibility of reduced franchise tax revenues, higher costs, such as load-balancing costs, being passed on to the remaining core consumers, and cross subsidization between sales and transportation customers.

Both the Municipal Intervenors and the City of Lethbridge accepted the right of non-core consumers to transportation service, provided local franchise taxes would not be diminished as a result of the service. In contrast, the City of Calgary stated that transportation service should be made available to all those who directly contract with producers and others for their supply of gas, as

long as the franchise tax applicable to transportation customers is similar to that collected from sales customers.

#### 5.5 Views of the Utilities

The Utilities argued that only non-core consumers should be eligible for transportation service. They recommended that transportation should be made available to consumers on the LDCs' distribution systems, and further recommended that the rates for such service be based on the marginal costs of providing the service, including any transitional administrative and load-balancing costs. However, if transportation service is made available to core consumers on the distribution systems of the LDCs, the utilities argued that such service must be subject to the rights of the parties under existing contracts and franchise agreements.

#### 5.6 Views of the Other Participants

The Industrial Consumers equated the right to transportation service with non-core status, but suggested that the eligibility of large sophisticated essential-service providers may be determined on an individual basis. They further submitted that the location of a consumer on the transmission system or the distribution system should not be a factor in determining whether or not a consumer should have access to transportation service. The majority of other Participants adopted a similar view.

#### 5.7 Findings and Recommendations of the Boards

The Boards believe that transportation service for natural gas should be made generally available to consumers, to the extent that capacity is available, providing such service is extended on terms compatible with the Boards' requirements to ensure secure supplies for customers defined within the core market, and providing that such service is extended in a manner that will not increase the cost of gas or service to those remaining as sales customers of the LDCs. The manner in which transportation service is provided must also respect existing contractual commitments and franchise agreements, both of which will be dealt with later in this Report.

Therefore the Boards recommend that:

- (1) Core consumers should be provided transportation service for natural gas, whether situated on the transmission or distribution systems of the LDCs, provided that they have met the mandated contractual security of supply requirements recommended in Section 4.
- (2) All other consumers who are not designated as core consumers should be provided transportation service under transportation service regulations to be determined by the PUB.
- (3) The transportation of natural gas should be provided at rates that recover all of the costs associated with the provision of that service, in order to ensure that there is no cross-subsidization between the sales and transportation customers of the LDCs. Associated costs would include where appropriate, those related to take-or-pay provisions in existing gas purchase agreements and load-balancing.

#### Complexities of Implementation

The Boards agree that any system that is to be effective in ensuring that appropriate classes of consumers are protected through contractual arrangements and that those taking transportation service pay all related costs will be complex.

A few areas of difficulty are listed below:

- (1) There will be a need to ensure that core consumers maintain sufficient gas under contract to cover ongoing 10- to 15-year requirements. If they did not, their purchase contracts would have to contain provisions allowing their termination by the PUB and a requirement that such consumers return to the LDCs.
- (2) Some control may be required to ensure that consumers defined within the core market do not intentionally subvert the process by entering into contracts that have the appearance of meeting the conditions regarding long-term commitment but with the intention of negating their obligations and thus forcing the PUB to send them back to the LDCs after three years (by not maintaining the reserves under contract, as required).
- (3) The system must be able to ensure that any costs generated by customers moving in and out of the local distribution system are allocated to those customers. These could include take-or-pay and load-balancing costs. The correct allocation of those costs may be extremely difficult in practice.
- (4) The system must be able to operate without disrupting existing contracts, including municipal franchises.
- (5) The system should recognize that when one consumer is dealing with one producer as opposed to a local distribution company with a portfolio of reserves, the level of security may be reduced.

In summary, the Boards believe that in a market-oriented system, transportation service should be generally available to consumers. From the foregoing, however, it is clear that any system providing such would have to be carefully designed to avoid many potential problems.

Recognizing that the Government of Alberta and many interested parties are awaiting the recommendations from this Inquiry, the Boards have decided to release their Report without addressing the aforementioned details. The Boards are recommending that transportation service be made generally available to consumers if it is possible to do so in a manner which will ensure the 10- to 15-year ongoing security of supply, ensure that all related costs are paid by transportation service customers, and be compatible with existing contracts and franchise agreements.

The Boards recognize that the identification and quantification of the associated costs will be a most difficult matter. If the recommendations contained in this Report are approved and the Government of Alberta takes the necessary steps to implement them, the PUB will direct the affected LDCs to develop, for its approval, proposed rates and conditions of service that will insulate the remaining sales customers from any such associated costs. Since some of these associated costs may not be capable of determination until after the event, it may be appropriate to impose a special rider on transportation service customers which will later be distributed pursuant to directions of the PUB.

The Boards further recognize that the Transportation Service Regulations for core consumers will be necessarily complex. The aforementioned problems associated with consumers leaving and returning as sales customers of the LDCs, the confines of existing legislation and the existence of franchise agreements will be considered by the PUB in hearings to determine appropriate terms and conditions of transportation service.

## **6. ANY CHANGES THAT MAY BE REQUIRED TO THE TERMS OF ACCESS TO TRANSMISSION AND DISTRIBUTION FACILITIES**

### **6.1 Access to Distribution Systems**

At present, only consumers on the main transmission lines of the LDCs have access to transportation service. Consumers located on a distribution system of an LDC in a franchise area can only be served as sales customers of the LDC.

### **(a) Views of the Participants**

The majority of Participants in the Inquiry recommended that consumers on the LDCs' distribution systems be provided with transportation service.

Both Brenda Marketing and the Producers Group advocated open access to the LDCs' distribution and transmission systems. In addition, the Producers Group suggested that every five years consumers be given the option of changing from sales to transportation service.

The Producers Group and WGML took the view that the cost of the distribution system should be shared in an equitable fashion among all classes of users so that the cost burden would not be unduly shifted to the core market. WGML also suggested that core customers should have priority of supply and service.

The Utilities were prepared to offer transportation service to consumers on their distribution systems, providing such service would recover the attendant costs and providing the rights of the parties under existing contracts and franchise agreements were not violated.

Edmonton also questioned whether universal access to distribution systems would violate the existing franchise agreements.

### **(b) Findings and Recommendations of the Boards**

In Section 5, the Boards recommended that transportation service be generally available and not limited to certain classes of consumers. The Boards believe that it should not be limited to consumers on the transmission lines of the LDCs, but must also be available to consumers on their distribution systems.

The Boards note that the LDCs were prepared to offer transportation service on their distribution systems, under certain conditions. The Boards agree with the LDCs that the provision of such service must recover attendant costs and must not violate rights under existing contracts and franchise agreements.

The Boards do not agree with the suggestion that consumers should have the limited option of changing their status from that of sales customers to that of transportation customers every 5 years. The Boards believe that any sys-

tem implemented should provide that such changes can be applied for at any time and be judged on their own merits.

## 6.2 Returning to the LDC

### (a) Views of the Participants

Canbra recommended that a non-core customer returning as a sales customer of the LDC should do so at the rates and conditions of entry at that time. Palliser argued that such costs should be borne by those who decide to return as sales customers for two years. Northridge noted that it may not be "fair" to allow former transportation customers to return as sales customers and recommended that the PUB decide on the particular matter.

### (b) Findings and Recommendations of the Boards

The Boards recognize that some consumers, who have made their own arrangements for gas supply, may wish to return as sales customers of an LDC. The Boards believe that any consumer should be able to return to an LDC as a sales customer providing the consumer pays the fair and reasonable incremental costs associated with its return, and accepts the possibility that it may have a lower priority of access to supplies.

In the event of a dispute between the LDC and the returning consumer, the PUB could, on application, determine the fair and reasonable costs to be borne by the customer.

## 6.3 Buy-Sell Service

### (a) Views of the Participants

Northridge, Canfor and Maple Leaf all suggested that buy-sell arrangements may be a viable alternative to transportation service. Utilities in Quebec and Ontario can effect load-balancing through draws from their storage facilities. However, the Utilities pointed out that in Alberta, they balance their load by varying their gas purchases. Therefore, the Utilities explained that they would have difficulties in offering buy-sell arrangements since they do not have storage facilities and they would be required to contract for additional gas supplies at a time when they already have adequate supplies.

### (b) Findings and Recommendations of the Boards

In Report E86110, the PUB concluded,

*"... that 'buy-sell' arrangements are a viable alternative to and compatible with*

*transportation services. As such, the Utilities should be required to provide this service at the customer's option ..."*

The PUB is not persuaded, by the evidence presented to this Inquiry, that the buy-sell option is inoperable in Alberta. The PUB considers that the buy-sell option will be compatible with existing franchise agreements, while providing the consumer with the opportunity to contract for his own gas supply. Therefore, the PUB recommends that the LDCs provide a buy-sell service on the understanding that the customer would be responsible for all costs incurred by him in taking the service, including load-balancing and take-or-pay costs. However, if as a result of further evidence, the LDCs establish to the satisfaction of the PUB that such buy-sell service is impractical or impossible, the PUB will not order the LDCs to provide such a service.

## 7. ANY OTHER MATTERS CONSIDERED BY THE PUB AND THE ERCB TO BE RELEVANT

### 7.1 The Sanctity of Existing Contracts

#### (a) Views of the Participants

WGML submitted that it is essential for contractual arrangements, that were made under the previous regulated regime, to be maintained. IPAC and AEC also stressed that the sanctity of these contractual arrangements must be respected. Northridge, in its interpretation of the Agreement, felt that the intention was not to let existing contracts impede certain customers from securing more favourable contract terms for their current gas supply requirements.

The Utilities argued that any policy changes resulting from this Inquiry must be subject to the rights of the parties under existing contracts.

#### (b) Findings and Recommendations of the Boards

The Boards recognize the significance of parties binding themselves by entering into formal contracts. The Boards are committed to the position that implementation of their recommendations must be done in a manner which will not result in the abrogation of any existing contracts for natural gas supply between the producers and distributors, or between distributors and their customers. Therefore, the Boards consider that existing

contracts must be either maintained, terminated, or varied by the mutual agreement of the contracting parties.

Where the LDCs have entered into take-or-pay gas supply contracts with producers or other suppliers, the sanctity of those contracts should be equally maintained. However, the Boards recommend that the fair and reasonable net costs of those contracts which are in place at the time of any legislative change resulting from this Report, and which are no longer required to serve the sales customers of an LDC as a result of that legislative change and parties opting for transportation service, should be borne by the transportation customer. Such costs will be considered and approved by the PUB in establishing fair and reasonable rates for transportation service.

## **7.2 Load-Balancing Costs**

### **(a) Views of the Participants**

In discussing the need for expanded transportation service, the Utilities explained that load-balancing is a service which is implicitly included in the gas costs of their existing sales customers. The process of balancing the supply to their requirements is done in order to minimize the average gas supply costs of sales customers. It is achieved through the management of the Utilities' gas supplies, which involves the scheduling and ranking of different gas supply sources, such as solution gas, royalty production and spot purchases, in a manner which will meet the hourly, daily and seasonal requirements of sales customers. The Utilities further explained that the costs of this service are not easily determined or quantified but are nonetheless included in the cost of providing gas sales service.

The Utilities submitted that they cannot tolerate imbalances because of the effect such imbalances would have on the gas costs of sales customers.

The Industrial Consumers addressed one of the criteria for core market exemption proposed by the Utilities. The Utilities recommended that "the consumer's supply/demand can be operated and balanced as a transportation load, independent of that of other customers" and raised the question as to whether balancing should be hourly, daily, weekly, monthly or otherwise. The Industrial Consumers submitted that load-balancing is not a transportation access issue but a rate

issue and that an ability to balance load independent of the system should not be an eligibility requirement for transportation service. They argued that the Utilities had mixed the concept of load-balancing with that of back stopping.

### **(b) Findings and Recommendations of the Boards**

As indicated in Section 5, load-balancing is one of the complexities that could impinge on the ability to provide transportation service. However, the Boards consider that difficulties in quantifying load-balancing costs are not sufficient justification for denying access to such service.

The issue therefore is how and from whom load-balancing costs are to be recovered. The Boards consider that it is reasonable to recover such costs from those customers who cause them.

The Boards recognize the difficulties pointed out by the Utilities in identifying and quantifying these costs. The Boards recommend that to the extent that such costs are identifiable, they should be borne by the transportation customers. In approving just and reasonable rates for transportation service, the PUB will consider load-balancing costs. The PUB will also consider establishing a deferral accounting system to account for load-balancing costs which cannot be identified with an individual customer. In this respect, the Utilities will be required to provide specific proposals to the PUB for approval of such a system. It is recommended that such costs be recovered from all transportation customers.

## **7.3 Municipal Franchise Agreements**

### **(a) Views of the Participants**

Northridge considered that utilities have an exclusive franchise regarding their pipe in the ground, but not regarding the sale of gas. Northridge further added that, in their interpretation of the Agreement, the Province of Alberta is obliged to disenfranchise existing distributors with respect to their sales function. This latter position was supported in part by Enron, who recommended that the core market need not be exclusively served by the existing LDCs.

On the other hand, the Utilities submitted that the LDCs should be given the exclusive right to serve the core market and pointed out

that a framework to establish this exclusivity through the process of municipal franchises already exists.

In the view of the Co-ops, there is a need for franchises and for the exclusive right to serve within a franchise area. They also acknowledged the right of Municipalities to levy a tax on the sale of gas. This right does not change, according to the Co-ops, when a consumer changes from a sales customer to a transportation customer.

On this same issue, there was general agreement on the part of the Applicants that procedures should be put in place to ensure that Municipalities do not lose revenue as a result of sales customers switching to transportation service.

**(b) Findings and Recommendations of the Boards**

The Boards note that most, if not all, of the Participants agree that procedures should be put in place to ensure that the Municipalities recover their franchise taxes. The Boards recognize that, in the final analysis, the sanctity of the municipal franchise is a matter to be determined by the courts. The Boards make the recommendations contained in this Report on the assumption that these agreements do not constitute an absolute impediment to transportation service.

However, the Boards consider that the amount of franchise taxes collected by the Municipalities should not be affected by the decision of a consumer to change from sales to transportation service. Therefore, it will be necessary to alter the basis upon which these taxes are assessed. This may require amendments to certain franchise agreements.

As a partial solution to the problem of requiring amendments to the franchise agreements, the PUB recommends that the LDCs provide a buy-sell service on the understanding that the customer would be responsible for all costs incurred by him in taking the service, including load-balancing and take-or-pay costs. In the event that the LDCs establish to the satisfaction of the PUB that such buy-sell service is impractical or impossible, then transportation service for consumers in franchised areas will only be possible if a method of preserving the revenues of the Municipalities is established or if the affected Municipality waives this requirement.

**7.4 Protection Under the Gas Resources Preservation Act**

**(a) Views of the Participants**

It was suggested by more than one Participant to the Inquiry that certain pre-emptive rights provided by the Gas Resources Preservation Act be eliminated. These Participants were referring to the condition typically in permits that provides for Alberta consumers to be supplied with gas where reasonable, and to the emergency diversion conditions that are set out in the legislation. Those who supported elimination of these rights argued that they are contrary to the spirit of deregulation.

**(b) Findings and Recommendations of the Boards**

There are a number of elements of protection afforded by the Gas Resources Preservation Act and present administrative practices of the ERCB. They include:

- (1) The  $LSC_1$  calculation to determine if there are gas reserves available for inclusion in permits;
- (2) The section of the Gas Resources Preservation Act which allows gas flowing from the Province to be diverted to Alberta markets in an emergency;
- (3) The condition in permits specifying that gas designated for removal be made available to Alberta consumers when required, and where it is reasonable to do so;
- (4) The gas removal permit system and Section 29 of the Energy Resources Conservation Act, which provides an opportunity for potentially affected parties to appear before the ERCB respecting removal permit applications. This includes Alberta consumers who may express concerns regarding future supplies available to them.

If the Government of Alberta accepts and implements the recommendations in this Report, the ERCB would intend to make certain changes to the elements listed above. For instance, if the core consumers satisfy the 10- to 15-year security of supply requirement, the ERCB would reconsider the need to continue the formal calculation of reserves available for inclusion in permits, though the calculation might be retained for monitoring purposes.

With respect to supplying gas to Alberta consumers, where reasonable to do so, it is

recommended that the condition be retained, but only with respect to core consumers and those non-core consumers who elect to remain as sales customers of the LDCs. As in the past, it would be expected that such gas would be provided in accordance with contracts negotiated between permit holders and the consumers or their representatives. Similarly, the provision for emergency diversion should be retained, but its applicability should be limited to core consumers and those non-core consumers who elect to remain as sales customers of the LDCs.

The Energy Resources Conservation Act gives certain rights to any party that may be directly and adversely affected by an ERCB decision on an application. In dealing with removal permit applications, such rights cannot be removed simply because an intervening party is a non-core consumer. However, in assessing submissions from Alberta consumers who may be concerned regarding their future needs, the ERCB would have regard for all relevant aspects of a particular situation. It is expected that this would include a consideration of the contracting practices followed by that consumer and whether the consumer is part of the core market.

#### **7.5 Price Support for Consumers**

Certain Participants suggested that any government subsidy to gas consumers should be limited to those in the core group who are required to have long-term contracts. If the Government of Alberta decides to extend the present gas subsidy program, it may wish to consider that suggestion.

#### **7.6 Amendments to Existing Legislation**

In order to implement the recommendations contained in this Report with respect to the provision of security of supply to consumers in the core market, it will be necessary for appropriate amendments to be made to the Gas Utilities Act and perhaps the Rural Gas Act to provide the PUB with authority to prescribe a 10- to 15-year gas supply for consumers in the core market. Neither the PUB nor the ERCB would have the authority to regulate this requirement with respect to municipally-owned utilities and gas cooperatives without further amendments to the existing legislation. Amendments may also be required to the Gas Resources Preservation Act with respect to the protection afforded certain types of consumers.

#### **7.7 Other Regulatory Issues**

##### **(a) Regulation of Suppliers**

The Utilities suggested that if it is determined that transportation service should be made available to core market consumers, then all suppliers to the core market must be regulated and such suppliers must respect the rights of parties under existing contracts or franchise agreements.

The Boards suggest that it may be premature to consider the regulation of suppliers to the core market, other than the LDCs. Should the need to do so arise in the future, the PUB is fully aware of its jurisdiction under the Gas Utilities Act in this regard.

##### **(b) Public Tendering**

With respect to directions that the PUB might take in carrying out its regulatory responsibilities, Northridge suggested that the protection of captive customers of the utilities can be achieved by ensuring that fair gas prices are paid by the LDCs. Northridge recommended that this can best be achieved through a PUB-instituted system of public tendering for gas supplies. Northridge considered that the tendering process would ensure that utilities pay market responsive prices.

The Boards consider that the matter of ensuring that the prices paid for gas by the LDCs are just and reasonable is one which the PUB already monitors within the context of general rate applications. A system of public tendering for gas supplies should more appropriately be addressed in that forum.

#### **8. SUMMARY OF THE BOARDS' RECOMMENDATIONS TO THE LIEUTENANT GOVERNOR IN COUNCIL**

In response to the five matters of the Inquiry as set out in the Appendix to Order in Council 484/87 and the issues therefrom, the Boards' recommendations are summarized as follows.

##### **8.1 The Basis for Determining the Classes of Consumers of Natural Gas Who Should Be Protected by Contracts for the Supply of Natural Gas That Ensure Long-Term Security of Supply [O.C. (a)(i)]**

The Boards considered the body of evidence presented to the Inquiry on the matter of defining those classes of consumers who should be

protected by long-term contracts. (For ease of reference, this group is referred to as the "core market".) A number of Participants questioned whether it is possible to adequately define the core market, and argued that the Boards should not attempt such a definition. Other Participants recommended very precise definitions of those consumers who should constitute the core market.

With respect to the classes of consumers who should be protected by contracts, the Boards considered all of the criteria raised by the Participants in recommending whether a gas consumer should be included or excluded from the core market. Such criteria included the nature of gas use, size of load, capability to burn alternative fuel, the degree of sophistication in contracting for gas supplies and location in a franchise area or on a distribution system.

The Boards gave primary consideration to the nature of the use of gas in recommending a definition of the core market. It is their view that the classes of consumers who should be protected by contracts that ensure long-term supply are those consumers who depend on natural gas in such a fundamental manner that their requirements are always a priority. Security of supply to these classes of consumers is so vital to their well-being that, in a situation of major supply disruption, it is reasonable to expect that they would be afforded government protection to ensure their requirements are satisfied. Such consumers include those who use natural gas primarily for space heating and the maintenance of human comfort and survival, and whose well-being is very dependent on natural gas.

The consumers who have the characteristics discussed in the above paragraph represent the segment of the market that requires protection; the core market. The Boards consider that these protected consumers should contract for their security of supply. The Boards recognize that the market-based environment will establish the appropriate allocation of costs which might be associated with that protection. A legislated requirement that they place the necessary gas under contract would accomplish this.

The Boards appreciate the difficulty in precisely defining the core market in a manner that is satisfactory to all. Any such definition must be consistent with the general description set out in the earlier paragraph but also must be reasonably precise, easy to understand and practical to apply.

In order to arrive at such a definition the Boards considered it necessary to set out basic definitions for broad classes of consumers typically referred

to and used for reporting data and other purposes. As used in this Report, the various classes of consumers are specifically defined as follows:

*Residential:*

Consumers whose primary use of natural gas is for space heating, cooking and water heating in a private dwelling with associated buildings or in a boarding or rooming house.

*Commercial:*

Consumers using natural gas in carrying out a business where the primary use of the natural gas is for space heating, cooking, water heating or other non-process or non-manufacturing use, including those in the wholesale or retail trade, any multiple unit dwelling other than a boarding or rooming house, and any institutional enterprise, whether privately or publicly funded, which provides a service to the public.

*Industrial:*

Consumers whose predominant requirement for natural gas is for process or manufacturing use, or consumers whose primary requirement is for space and water heating, but where the operation is one of processing or manufacturing.

Having regard for those basic definitions, the Boards believe the earlier-described rationale for requiring long-term supply security for certain consumers would dictate that those in the residential and commercial sectors of the market, along with certain small volume industrial users, constitute the core market. Included in the commercial sector are all providers of essential services, whether publicly or privately funded, including government, social, educational and medical institutions. The Boards recognize that all of these classes of consumers are now typically served by the LDCs.

Although the rationale suggests that certain small industrial users would require long-term protection because they are totally dependent on natural gas, there would be serious problems in including such consumers in the core market. Since all industrials clearly do not require long-term protection, it would necessitate using a cut-off in terms of volumes consumed. Those using less than the specified volume would be included in the core market, those using more would not be, even though the type of use might be otherwise identical.

Not only would this approach involve an arbitrary cut-off level, but it would also require some degree of discrimination in the application of rates within

the industrial category. The PUB, in particular, believes this would be contrary to the intent of the legislation under which it operates.

In addition to the above problems, it should be noted that most of the Participants in the Inquiry suggested all industrials be in the non-core category. The Boards are mindful that small industrial consumers, of less than 40,000 GJ/year for example, use a very small portion of the total gas consumed in the Province. The Boards also would expect that many of these small industrial consumers who are currently served by the LDCs would likely remain as sales customers of the LDCs rather than contract for their own natural gas supply, even if they are part of the non-core market.

For all of the above stated reasons, and even though certain small industrial consumers fit the rationale for requiring long-term supply protection, the Boards recommend that they be left out of the definition. The Boards consider that industrial consumers who elect to remain as sales customers of the LDCs should be treated as if they were part of the core and afforded the same security of supply protection that will be provided to core consumers.

In summary, the Boards conclude that residential and commercial consumers, including those providing essential services, are the classes of consumers who should be protected by contracts that ensure security of supply.

#### **8.2 The Terms and Conditions of Contracts That Would Ensure Long-Term Security of Supply for Those Consumers [O.C. (a)(ii)]**

The Boards believe that in order to provide long-term security to the core market, gas supply contracts will have to dedicate to this segment of the market established gas reserves with a proven ability to deliver gas over a reasonable future time period. Having regard for the substantial potential for additional reserves to be found in Alberta, typical production patterns for Alberta gas pools, the financing requirements for production facilities and the earlier findings of the ERCB that an approximate 15-year protection period is appropriate, the Boards conclude that contracts should ensure security for a period of 10 to 15 years.

In addition, the Boards consider that there is no reason to deny producers, brokers and other agents the opportunity to serve the core market if such service can be provided without undermining the recommended mandated contractual protection of the core market consumer, and sub-

ject to conclusions regarding the availability of transportation service as set out in Section 5.

In order to ensure the security of supply to core consumers and those industrial consumers who elect to remain as sales customers of the LDCs, the Boards are therefore recommending changes to the legislation that would require that gas be maintained under contract for a time period judged satisfactory by the PUB. The mandatory period for security of supply would typically be 10 to 15 years, however, in special circumstances, a somewhat lesser period might be proposed to and accepted by the PUB. These circumstances might include relatively remote gas systems where contracting for 10- to 15-years supply would be totally impractical if not impossible, and/or where security of supply can be ensured in some other manner. (In the remainder of this Report, the period of protection will, for convenience, generally be referred to as "10- to 15-years". It should be taken, however, to include the above mentioned proviso.)

The adequacy of the reserves under contract would be reviewed by the PUB about every 3 years.

The Boards recommend that LDCs serving core market consumers and others who elect to remain as sales customers should be required to have under contract sufficient deliverability to meet current peak load requirements as well as proven reserves for some 10- to 15-years requirements. However, the Boards recognize that some of the small LDCs, including certain municipally-owned utilities, may require a period of time before they could satisfy the reserve contracting requirements. Accordingly, some discretion should be afforded the PUB with respect to the timing of initial compliance with the requirement.

The Boards believe that where core consumers choose to contract with other than the LDCs, the PUB should also be satisfied that in addition to having sufficient deliverability to meet current peak requirements and enough proven reserves for some 10 to 15 years, they have adequate back-up for their supplies. Also, where the contracts are with parties that supply gas to other core consumers, it would have to be demonstrated that there is sufficient gas available in addition to the gas committed to the others.

The Boards consider that supply is required on an on-going basis and therefore, they recommend that the period of protection be a "rolling period", of some 10 to 15 years. Hence, if core consumers contract for their own gas supply, they must be

prepared to maintain the 10- to 15-year requirement level by periodically contracting for additional reserves.

Situations could occur where core consumers, for example, contract for 12 years, add no further reserves over 4 or more years, and wish to simply finish the life of the contract before rejoining the LDC. This would mean that for 8 or so years, they would have less than the normal required amount of gas under contract. To prevent this, transportation service would have to be provided to core consumers only if their purchase contracts with producers or others specify that they will be automatically cancelled if at any future review, the consumer fails to satisfy the PUB that it has sufficient gas under contract. Therefore, their purchase contracts would have to contain provisions allowing their termination by the PUB and a requirement that such consumers return to the LDCs.

The PUB would be expected to consult with the ERCB regarding the volumes and potential productivity of reserves placed under contract. It is important to note that not all of the reserves contracted would have to be connected or capable of delivery at the time of contracting, but they must have demonstrated potential to be deliverable when needed in future.

### 8.3 The Availability of Transportation Service for Natural Gas to Consumers Who Wish to Contract Directly With Producers and Others for the Supply of Natural Gas [O.C. (a)(iii)]

The Boards believe that transportation service for natural gas should be made generally available to consumers, to the extent that capacity is available, providing such service is extended on terms compatible with the Boards' requirements to ensure secure supplies for customers defined within the core market, and providing that such service is extended in a manner that will not increase the cost of gas or service to those remaining as sales customers of the LDCs. The manner in which transportation service is provided must also respect existing contractual commitments and franchise agreements, both of which will be dealt with later in this Report.

Therefore the Boards recommend that:

- (1) Core consumers should be provided transportation service for natural gas, whether situated on the transmission or distribution systems of the LDCs, provided that they have met the mandated contractual security of supply requirements recommended in Section 4.

- (2) All other consumers who are not designated as core consumers should be provided transportation service under transportation service regulations to be determined by the PUB.
- (3) The transportation of natural gas should be provided at rates that recover all of the costs associated with the provision of that service, in order to ensure that there is no cross-subsidization between the sales and transportation customers of the LDCs. Associated costs would include where appropriate, those related to take-or-pay provisions in existing gas purchase agreements and load-balancing.

#### Complexities of Implementation

The Boards agree that any system that is to be effective in ensuring that appropriate classes of consumers are protected through contractual arrangements and that those taking transportation service pay all related costs will be complex. A few areas of difficulty are listed below:

- (1) There will be a need to ensure that core consumers maintain sufficient gas under contract to cover ongoing 10- to 15-year requirements. If they did not, their purchase contracts would have to contain provisions allowing their termination by the PUB and a requirement that such consumers return to the LDCs.
- (2) Some control may be required to ensure that consumers defined within the core market do not intentionally subvert the process by entering into contracts that have the appearance of meeting the conditions regarding long-term commitment but with the intention of negating their obligations and thus forcing the PUB to send them back to the LDCs after three years (by not maintaining the reserves under contract, as required).
- (3) The system must be able to ensure that any costs generated by customers moving in and out of the local distribution system are allocated to those customers. These could include take-or-pay and load-balancing costs. The correct allocation of those costs may be extremely difficult in practice.
- (4) The system must be able to operate without disrupting existing contracts, including municipal franchises.
- (5) The system should recognize that when one consumer is dealing with one producer as opposed to a local distribution company with a portfolio of reserves, the level of security may be reduced.

In summary, the Boards believe that in a market-oriented system, transportation service should be generally available to consumers. From the foregoing, however, it is clear that any system providing such would have to be carefully designed to avoid many potential problems.

Recognizing that the Government of Alberta and many interested parties are awaiting the recommendations from this Inquiry, the Boards have decided to release their Report without addressing the aforementioned details. The Boards are recommending that transportation service be made generally available to consumers if it is possible to do so in a manner which will ensure the 10- to 15-year ongoing security of supply, ensure that all related costs are paid by transportation service customers, and be compatible with existing contracts and franchise agreements.

The Boards recognize that the identification and quantification of the associated costs will be a most difficult matter. If the recommendations contained in this Report are approved and the Government of Alberta takes the necessary steps to implement them, the PUB will direct the affected LDCs to develop, for its approval, proposed rates and conditions of service that will insulate the remaining sales customers from any such associated costs. Since some of these associated costs may not be capable of determination until after the event, it may be appropriate to impose a special rider on transportation service customers which will later be distributed pursuant to directions of the PUB.

The Boards further recognize that the Transportation Service Regulations for core consumers will be necessarily complex. The aforementioned problems associated with consumers leaving and returning as sales customers of the LDCs, the confines of existing legislation and the existence of franchise agreements will be considered by the PUB in hearings to determine appropriate terms and conditions of transportation service.

#### **8.4 Any Changes That May Be Required to the Terms of Access to Transmission and Distribution Facilities, to Make Them Consistent With the Government's Policy Concerning Long-Term Security of Supply [O.C. (a)(iv)]**

##### **(a) Access To Distribution Systems**

In Section 5, the Boards recommended that transportation service be generally available and not limited to certain classes of consumers. The Boards believe that it should not be limited to consumers on the transmission

lines of the LDCs, but must also be available to consumers on their distribution systems.

The Boards note that the LDCs were prepared to offer transportation service on their distribution systems, under certain conditions. The Boards agree with the LDCs that the provision of such service must recover attendant costs and must not violate rights under existing contracts and franchise agreements.

The Boards do not agree with the suggestion that consumers should have the limited option of changing their status from that of sales customers to that of transportation customers every 5 years. The Boards believe that any system implemented should provide that such changes can be applied for at any time and be judged on their own merits.

##### **(b) Returning to the LDC**

The Boards recognize that some consumers, who have made their own arrangements for gas supply, may wish to return as sales customers of an LDC. The Boards believe that any consumer should be able to return to an LDC as a sales customer providing the consumer pays the fair and reasonable incremental costs associated with its return, and accepts the possibility that it may have a lower priority of access to supplies.

In the event of a dispute between the LDC and the returning consumer, the PUB could, on application, determine the fair and reasonable costs to be borne by the customer.

##### **(c) Buy-Sell Service**

In Report E86110, the PUB concluded,

*"... that 'buy-sell' arrangements are a viable alternative to and compatible with transportation services. As such, the Utilities should be required to provide this service at the customer's option ..."*

The PUB is not persuaded, by the evidence presented to this Inquiry, that the buy-sell option is inoperable in Alberta. The PUB considers that the buy-sell option will be compatible with existing franchise agreements, while providing the consumer with the opportunity to contract for his own gas supply. Therefore, the PUB recommends that the LDCs provide a buy-sell service on the understanding that the customer would be responsible for all costs incurred by him in taking the service, including load-balancing and take-or-pay costs. However, if as a result of further

evidence, the LDCs establish to the satisfaction of the PUB that such buy-sell service is impractical or impossible, the PUB will not order the LDCs to provide such a service.

**8.5 Any Other Matters Considered by the Public Utilities Board and Energy Resources Conservation Board to be Relevant To Any of the Matters Referred to in Sub-clauses (i) to (iv); [O.C. (a)(v)]**

**(a) The Sanctity of Existing Contracts**

The Boards recognize the significance of parties binding themselves by entering into formal contracts. The Boards are committed to the position that implementation of their recommendations must be done in a manner which will not result in the abrogation of any existing contracts for natural gas supply between the producers and distributors, or between distributors and their customers. Therefore, the Boards consider that existing contracts must be either maintained, terminated, or varied by the mutual agreement of the contracting parties.

Where the LDCs have entered into take-or-pay gas supply contracts with producers or other suppliers, the sanctity of those contracts should be equally maintained. However, the Boards recommend that the fair and reasonable net costs of those contracts which are in place at the time of any legislative change resulting from this Report, and which are no longer required to serve the sales customers of an LDC as a result of that legislative change and parties opting for transportation service, should be borne by the transportation customer. Such costs will be considered and approved by the PUB in establishing fair and reasonable rates for transportation service.

**(b) Load-Balancing Costs**

As indicated in Section 5, load-balancing is one of the complexities that could impinge on the ability to provide transportation service. However, the Boards consider that difficulties in quantifying load-balancing costs are not sufficient justification for denying access to such service. The issue therefore is how and from whom load-balancing costs are to be recovered. The Boards consider that it is reasonable to recover such costs from those customers who cause them.

The Boards recognize the difficulties pointed out by the Utilities in identifying and quantifying

these costs. The Boards recommend that to the extent that such costs are identifiable, they should be borne by the transportation customers. In approving just and reasonable rates for transportation service, the PUB will consider load-balancing costs. The PUB will also consider establishing a deferral accounting system to account for load-balancing costs which cannot be identified with an individual customer. In this respect, the Utilities will be required to provide specific proposals to the PUB for approval of such a system. It is recommended that such costs be recovered from all transportation customers.

**(c) Municipal Franchise Agreements**

The Boards note that most, if not all, of the Participants agree that procedures should be put in place to ensure that the Municipalities recover their franchise taxes. The Boards recognize that, in the final analysis, the sanctity of the municipal franchise is a matter to be determined by the courts. The Boards make the recommendations contained in this Report on the assumption that these agreements do not constitute an absolute impediment to transportation service.

However, the Boards consider that the amount of franchise taxes collected by the Municipalities should not be affected by the decision of a consumer to change from sales to transportation service. Therefore, it will be necessary to alter the basis upon which these taxes are assessed. This may require amendments to certain franchise agreements.

As a partial solution to the problem of requiring amendments to the franchise agreements, the PUB recommends that the LDCs provide a buy-sell service on the understanding that the customer would be responsible for all costs incurred by him in taking the service, including load-balancing and take-or-pay costs. In the event that the LDCs establish to the satisfaction of the PUB that such buy-sell service is impractical or impossible, then transportation service for consumers in franchised areas will only be possible if a method of preserving the revenues of the Municipalities is established or if the affected Municipality waives this requirement.

**(d) Protection Under the Gas Resources Preservation Act**

There are a number of elements of protection afforded by the Gas Resources Preservation Act and present administrative practices of the ERCB. They include:

- (1) The 15C<sub>1</sub> calculation to determine if there are gas reserves available for inclusion in permits;
- (2) The section of the Gas Resources Preservation Act which allows gas flowing from the Province to be diverted to Alberta markets in an emergency;
- (3) The condition in permits specifying that gas designated for removal be made available to Alberta consumers when required, and where it is reasonable to do so;
- (4) The gas removal permit system and Section 29 of the Energy Resources Conservation Act, which provides an opportunity for potentially affected parties to appear before the ERCB respecting removal permit applications. This includes Alberta consumers who may express concerns regarding future supplies available to them.

If the Government of Alberta accepts and implements the recommendations in this Report, the ERCB would intend to make certain changes to the elements listed above. For instance, if the core consumers satisfy the 10- to 15-year security of supply requirement, the ERCB would reconsider the need to continue the formal calculation of reserves available for inclusion in permits, though the calculation might be retained for monitoring purposes.

With respect to supplying gas to Alberta consumers, where reasonable to do so, it is recommended that the condition be retained, but only with respect to core consumers and those non-core consumers who elect to remain as sales customers of the LDCs. As in the past, it would be expected that such gas would be provided in accordance with contracts negotiated between permit holders and the consumers or their representatives. Similarly, the provision for emergency diversion should be retained, but its applicability should be limited to core consumers and those non-core consumers who elect to remain as sales customers of the LDCs.

The Energy Resources Conservation Act gives certain rights to any party that may be directly and adversely affected by an ERCB decision on an application. In dealing with removal permit applications, such rights cannot be removed simply because an intervening party is a non-core consumer. However, in assessing submissions from Alberta consumers who may be concerned regarding

their future needs, the ERCB would have regard for all relevant aspects of a particular situation. It is expected that this would include a consideration of the contracting practices followed by that consumer and whether the consumer is part of the core market.

**(e) Price Support for Consumers**

Certain Participants suggested that any government subsidy to gas consumers should be limited to those in the core group who are required to have long-term contracts. If the Government of Alberta decides to extend the present gas subsidy program, it may wish to consider that suggestion.

**(f) Amendments to Existing Legislation**

In order to implement the recommendations contained in this Report with respect to the provision of security of supply to consumers in the core market, it will be necessary for appropriate amendments to be made to the Gas Utilities Act, and perhaps the Rural Gas Act, to provide the PUB with authority to prescribe a 10- to 15-year gas supply for consumers in the core market. Neither the PUB nor the ERCB would have the authority to regulate this requirement with respect to municipally-owned utilities and gas cooperatives without further amendments to the existing legislation. Amendments may also be required to the Gas Resources Preservation Act with respect to the protection afforded certain types of consumers.

**(g) Other Regulatory Issues**

The Boards suggest that it may be premature to consider the regulation of suppliers to the core market, other than the LDCs. Should the need to do so arise in the future, the PUB is fully aware of its jurisdiction under the Gas Utilities Act in this regard.

The Boards consider that the matter of ensuring that the prices paid for gas by the LDCs are just and reasonable is one which the PUB already monitors within the context of general rate applications. A system of public tendering for gas supplies, as recommended by Northridge, should more appropriately be addressed in that forum.

*Dated at Edmonton the 29th day of December, 1987*

PUBLIC UTILITIES BOARD

(Signed)  
T.D. Hetherington  
Presiding Member

(Signed)  
A.C. Barlett  
Member

(Signed)  
R.D.S. Ward  
Member

ENERGY RESOURCES  
CONSERVATION BOARD

(Signed)  
G.J. DeSorcy  
Chairman  
Energy Resources Conservation Board

(Signed)  
J.P. Prince  
Member

"FOR IMMEDIATE RELEASE

April 14, 1987

## **NATURAL GAS PROTECTION AND PRICING IN ALBERTA**

EDMONTON -- Neil Webber, Minister of Energy, today outlined the policy of the Government of Alberta on natural gas protection procedures.

Dr. Webber stated that the core market for Alberta natural gas, comprising residential and commercial gas users who are not in a position to use alternative fuels, must be protected by long-term contracts which ensure adequate long-term protection.

He indicated that Alberta would not find it acceptable for core market consumers to enter into contracts for short-term, low-price gas supplies under the expectation that gas supplies held by a mandated surplus test would be diverted to meet their needs.

Dr. Webber referred to a recent decision by the Energy Resources Conservation Board (ERCB), which recommended significant changes to gas supply protection procedures in Alberta. The board recommendation requires the industry sector to provide for its own supply protection through contractual arrangements. The ERCB has retained a surplus test for residential and commercial users, but at a reduced level. Traditional contracting practices of Alberta utilities provide approximately the same level of supply assurance to core markets that the new test requires.

Dr. Webber indicated that from the Alberta government's perspective the public interest is best served by a gas protection procedure that:

- delivers gas supply protection with minimum distortion of market forces;
- allows industrial consumers to provide their own protection through the contractual process; and
- provides assurance that the future natural gas needs of Alberta residential and commercial users will be met.

To accommodate these objectives Dr. Webber has requested that Alberta gas utilities continue their practice of long-term contracting to ensure that their contracts continue to provide appropriate long-term protection.

It is the view of the provincial government that prices for gas serving core markets should reflect the long-term secure nature of the supply. Prices negotiated with distributors east of Alberta, for the portion of the existing contracts going to core markets, have reflected the value of the secure gas supply to this segment of the market, the minister added.

Dr. Webber emphasized the provincial government's concern that core market consumers are being encouraged to move out of the core into the direct sales market to take advantage of low prices for short-term sales. He said security of supply should be equally important to these consumers.

Alberta is not prepared to allow core market consumers to rely on short-term gas sales.

Alberta policy is that natural gas contracts to the core market must provide fair prices and long-term security of supply.

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Reference:  
Alberta Energy  
Office of the Minister  
(403) 427-3740 "

**WITNESSES**

|                                                                                                                                                                                                |   |                                                                                                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|-------------------------------------------------------------------------------------------------|
| For Northridge Petroleum Marketing, Inc.<br>(Northridge); Alberta Sugar Company,<br>Canadian National Railway, and<br>IKO Industries Limited                                                   | : | D. G. Minion, Esq.<br>Chairman, Northridge                                                      |
|                                                                                                                                                                                                | : | G. L. Spackman, Esq.<br>Vice-President, Natural Gas, Northridge                                 |
|                                                                                                                                                                                                | : | A. D. McIntosh, Esq.<br>General Manager, Western<br>Canada Operations, IKO                      |
|                                                                                                                                                                                                | : | V. E. Pettinger, Esq.<br>Purchasing Officer, CNR                                                |
| For Alberta Dehy Association (Alberta Dehy)                                                                                                                                                    | : | R. Roy, Esq.                                                                                    |
| For Alberta Distillers Limited                                                                                                                                                                 | : | G. Austin, Esq.                                                                                 |
| For Calgary District Hospital Group<br>(Hospital Group):<br>Foothills Hospital, Calgary General Hospital,<br>Grace Hospital, Bethany Care Centre,<br>Alberta Children's Hospital, and Carewest | : | E. Emerton, Esq.<br>Director of Purchasing, Calgary District<br>Hospital Group                  |
|                                                                                                                                                                                                | : | R. T. Liddle, Esq.<br>President, Liddle Engineering                                             |
|                                                                                                                                                                                                | : | T. W. Leithhead, Esq.<br>Director, Physical Plant Services<br>Foothills Hospital                |
|                                                                                                                                                                                                | : | Mrs. J. Harris<br>Purchasing Manager, Foothills Hospital                                        |
|                                                                                                                                                                                                | : | Ms. A. Black<br>Purchasing Manager, Calgary General<br>Hospital                                 |
| For CBR Cement Canada Limited (CBR)                                                                                                                                                            | : | P. Johnson, Esq.<br>Purchasing Manager, Inland Cement<br>Limited (Edmonton)                     |
| For Canada Packers Inc. (Canada Packers)                                                                                                                                                       | : | R. A. Blood, Esq.<br>Western Group Buyer                                                        |
| For Canbra Foods Ltd. (Canbra), Lethbridge<br>Brewery Limited (Lethbridge Brewery), and<br>Palliser Distillers Ltd. (Palliser)                                                                 | : | J. Roosendaal, Esq.<br>Canbra Foods Ltd.                                                        |
|                                                                                                                                                                                                | : | R. Matteotti, Esq.<br>Engineering and Maintenance<br>Superintendent, Lethbridge Brewery Limited |
|                                                                                                                                                                                                | : | C. A. Spearman, Esq.<br>Manager, Accounting and Administration                                  |

Public Utilities Board, Alberta and  
Energy Resources Conservation Board

GAS SUPPLY AND  
TRANSPORTATION SERVICE INQUIRY

|                                                                                                        |   |                                                                                        |
|--------------------------------------------------------------------------------------------------------|---|----------------------------------------------------------------------------------------|
| For Maple Leaf Mills Limited (Maple Leaf)                                                              | : | E. McDougall, Esq.<br>President                                                        |
|                                                                                                        | : | J. Chabrey, Esq.<br>General Manager, Alberta Region                                    |
| For Canadian Forest Products Limited (Canfor)                                                          | : | T. Vanderveen, Esq.<br>Purchasing Manager, Energy Supply, Canfor                       |
|                                                                                                        | : | R. Liddle, Esq.,<br>Consultant                                                         |
| For the University of Alberta (University)                                                             | : | S. Ostapowich<br>Plant Utilities Engineer, University of Alberta                       |
|                                                                                                        | : | A. Da Silva<br>Manager, Mechanical Utilities, University of<br>Alberta                 |
| For Canadian Western Natural Gas Company<br>Limited (CWNG) and Northwestern Utilities Limited<br>(NUL) | : | G. W. Richards, Esq.<br>Vice-President, Rate Administration, CWNG<br>and NUL           |
|                                                                                                        | : | G. W. Welsh, Esq.<br>Vice-President, Gas Supply Engineering,<br>CWNG and NUL           |
|                                                                                                        | : | D. M. Ellard, Esq.<br>Vice-President, Administration and Marketing,<br>NUL             |
| For The Federation of Alberta Gas Cooperatives<br>Ltd. (Co-ops)                                        | : | H. J. Tomlinson, Esq.<br>President, The Federation of Alberta Gas<br>Cooperatives Ltd. |
| For Independent Petroleum Association of<br>Canada (IPAC)                                              | : | M. Todd, Esq.<br>Chairman, IPAC                                                        |
|                                                                                                        | : | J. Schissel, Esq.<br>Director, IPAC                                                    |
|                                                                                                        | : | R. Hillary, Esq.<br>General Manager, Crude Oil and Natural<br>Gas, IPAC                |
| For The Alberta Gas Ethylene Company (AGEC)                                                            | : | D. F. Clarke, Esq.<br>Vice-President, Fuel & Feedstocks                                |

Public Utilities Board, Alberta and  
Energy Resources Conservation Board

GAS SUPPLY AND  
TRANSPORTATION SERVICE INQUIRY

For Amoco Canada Petroleum Company Ltd.  
and Others (the Producer Group)

: P. M. G. Nettleton, Esq.  
Regulatory Affairs Advisor, Esso Resources  
Canada Limited

: D. A. Fleming, Esq.,  
Manager, Natural Gas Marketing  
Shell Canada Limited

: F. C. Basham, Esq.  
Co-ordinator, Market Development  
BP Canada Inc.

: P. J. Renton, Esq.  
Manager, Natural Gas Marketing,  
Gulf Canada Resources Limited

For AEC Oil and Gas Company  
[Alberta Energy Company] (AEC)

: D. Cornelson, Esq.

For Western Gas Marketing  
Limited (WGML)

: C. R. Frew, Esq.  
Vice-President, Operations

For Enron Canada Ltd. (Enron)

: D. Schaus, Esq.

For RTM Engineering Ltd. (RTM) On behalf of:  
Palm Dairies Limited, Standen's Limited, and  
Central Alberta Dairy Pool

: E. H. Scott, Esq.  
Vice-President, RTM

: L. Bischoff, Esq.  
Vice-President, Palm Dairies

: D. Kilbourn, Esq.  
Assistant General Manager, Standen's Limited



## **APPEARANCES**

### **PARTICIPANTS**

#### **1. THE APPLICANTS**

|                                                                                                                              |   |                                                                     |
|------------------------------------------------------------------------------------------------------------------------------|---|---------------------------------------------------------------------|
| For Northridge Petroleum Marketing, Inc.,<br>Alberta Sugar Company, Canadian National<br>Railway, and IKO Industries Limited | : | T. M. Hughes, Esq.                                                  |
|                                                                                                                              | : | H. R. Hansford, Esq.                                                |
| For Alberta Dehy Association                                                                                                 | : | R. C. Purdy, Esq.                                                   |
| For Alberta Distillers Limited                                                                                               | : | G. J. Anderson, Esq.<br>Vice-President                              |
| For Calgary District Hospital Group                                                                                          | : | W. Murray Smith, Esq.                                               |
| For Canadian Forest Products Limited                                                                                         | : | W. Murray Smith, Esq.                                               |
| For CBR Cement Canada Limited                                                                                                | : | J. M. Horlick, Esq.                                                 |
| For Canada Packers Inc.                                                                                                      | : | W. H. Herlberg, Esq.                                                |
| For Canbra Foods Ltd.                                                                                                        | : | J. Rosendaal, Esq.                                                  |
| For Lethbridge Brewery Limited                                                                                               | : | R. Matteotti, Esq.<br>Engineering and Maintenance<br>Superintendent |
| For Maple Leaf Mills Limited                                                                                                 | : | E. B. McDougall, Esq.<br>President                                  |
|                                                                                                                              | : | J. Chabrey, Esq.<br>General Manager                                 |
| For Palliser Distillers Ltd.                                                                                                 | : | C. A. Spearman, Esq.<br>Manager, Accounting and Administration      |
| For the University of Alberta                                                                                                | : | Ms. Phyllis A. Smith, Q.C.                                          |

#### **2. THE UTILITIES**

|                                                                                        |   |                          |
|----------------------------------------------------------------------------------------|---|--------------------------|
| For Canadian Western Natural Gas Company<br>Limited and Northwestern Utilities Limited | : | J. C. Major, Esq., Q.C.  |
|                                                                                        | : | C. K. Sheard, Esq.       |
| For The Federation of Alberta Gas Cooperatives<br>Ltd.                                 | : | E. J. Walter, Esq., Q.C. |
| For ICG Utilities (Alberta) Ltd.                                                       | : | L. L. Hartford, Esq.     |

### 3. GAS PRODUCERS AND CONSUMERS

|                                                                                                                                                                                                                     |   |                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|-------------------------------------------------------------------------------------------------------|
| For Amoco Canada Petroleum<br>Company Ltd., BP Resources Canada Limited,<br>Esso Resources Canada Limited, Gulf Canada<br>Resources Limited Mobil Oil Canada, Ltd. and<br>Shell Canada Limited (the Producer Group) | : | R. C. Muir, Esq.                                                                                      |
| For Dome Petroleum Limited                                                                                                                                                                                          | : | R. A. Neufeld, Esq.                                                                                   |
| For Independent Petroleum Association of Canada<br>and Peco Petroleums Limited                                                                                                                                      | : | P. J. McIntyre, Esq.                                                                                  |
| For Industrial Consumers Group; Cominco Limited,<br>Celanese Canada Inc. Dow Chemical Canada Inc.<br>Esso Chemical Canada, and Western Canada<br>Steel Limited                                                      | : | F. V. Martin, Esq.<br><br>L. Soullere, Esq.<br>Divisional Accountant, Western Canada<br>Steel Limited |
| For AEC Oil and Gas Company                                                                                                                                                                                         | : | P. Davies, Esq.                                                                                       |
| For Alberta Gas Ethylene Company Ltd. and<br>NOVA, AN ALBERTA CORPORATION                                                                                                                                           | : | H. D. Williamson, Esq.<br><br>Ms. P. L. Wood                                                          |
| For RTM Engineering Ltd. On behalf of:<br>Palm Dairies Limited, Standen's Limited, and<br>Central Alberta Dairy Pool                                                                                                | : | E. H. Scott, Esq.<br>Vice-President, RTM Engineering Ltd.                                             |

### 4. BROKERS AND MARKETERS

|                                      |   |                                                |
|--------------------------------------|---|------------------------------------------------|
| For Enron Canada Ltd.                | : | D. G. Davies, Esq.                             |
| For Western Gas Marketing<br>Limited | : | R. Young, Esq., Q.C.<br><br>D. I. McLean, Esq. |

### 5. MUNICIPALITIES

|                                                                                                                                                     |   |                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|---|-------------------------|
| For City of Calgary                                                                                                                                 | : | R. F. Goss, Esq.        |
| For City of Edmonton                                                                                                                                | : | Ms. M. McAvoy           |
| For City of Lethbridge                                                                                                                              | : | R. L. Thiessen, Esq.    |
| For the Cities of Red Deer, Lloydminster, Fort<br>McMurray, and Grande Prairie, and the Towns of<br>Vermilion and Vegreville (Municipal Intervenor) | : | J. A. Bryan, Esq., Q.C. |

**6. OTHERS**

|                                                                                   |   |                                                           |
|-----------------------------------------------------------------------------------|---|-----------------------------------------------------------|
| For Alberta and Southern Gas Co. Ltd. and<br>Alberta Natural Gas Company Ltd.     | : | A. A. Fradsham, Esq.                                      |
| For Pan Alberta Gas Ltd.                                                          | : | G. H. Giesbrecht, Esq.<br>Coordinator, Regulatory Affairs |
| For Union Gas Limited                                                             | : | D. Hockin, Esq.                                           |
| For Consumers Gas Company Ltd.                                                    | : | G. Dann, Esq.                                             |
| For Canfarge - Northern Alberta Region, Division of<br>Canada Cement Lafarge Ltd. | : | C. M. Pinkerton, Esq.,<br>P.Eng., Equipment Division      |
| For Many Islands Pipe Lines (Canada) Ltd.                                         | : | Ms. B. Tompkins                                           |
| For BP Resources Canada Limited                                                   | : | F. C. Basham, Esq.                                        |
| For Foster Research                                                               | : | Ms. H. Hammond<br>Partner                                 |
| For B.C. Hydro and Power Authority                                                | : | E. C. Eddy, Esq.                                          |
| For B.C. Ministry of Energy, Mines and Petroleum<br>Resources                     | : | J. Allan, Esq.<br>Director of Policy Analysis             |
|                                                                                   | : | Ms. G. Wlgnore                                            |
| For Manitoba Ministry of Energy and Mines                                         | : | Ms. C. Wiseman                                            |
| For Ontario Ministry of Energy                                                    | : | Ms. L. Mahboobi                                           |
| On His Own Behalf                                                                 | : | B. Pashak, Esq.,<br>MLA, Member for Calgary-Forest Lawn   |
| On His Own Behalf                                                                 | : | H. Fox, Esq.                                              |
| For Her Majesty The Queen in Right of Alberta                                     | : | R. G. Panchuk, Esq.                                       |
|                                                                                   | : | Ms. P. McCunn-Miller                                      |